THE FREEMAN

IDEAS ON LIBERTY

Sports in America

The Rise and Fall of the Edsel

Crime and Consequences: Part III

Crackdown in China

SEPTEMBER 1989

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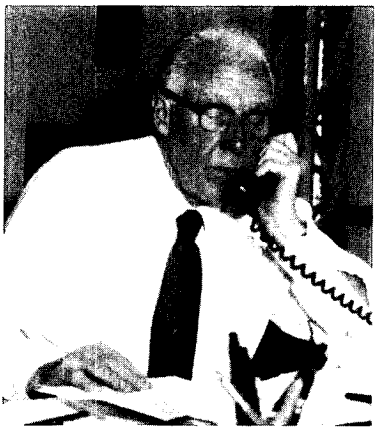

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Judge George Revecomb and Lynne Cheney, chairman of the *National Endowment for the Humanities*, present the Benjamin Franklin Award to Roger Pilon (right).

Pilon Article Honored by National Press Foundation

Dr. Roger Pilon, *Freeman* author and a senior fellow at the Cato Institute, was one of four winners of the 1988 Benjamin Franklin awards for excellence in writing on the U.S. Constitution. The awards are sponsored by the National Press Foundation in partnership with the Commission on the Bicentennial of the United States Constitution.

Dr. Pilon's winning article "On the Foundations of Economic Liberty" appeared in the September 1988 issue of *The Freeman*. It discusses the natural connection between economic and political liberties and the role of the judiciary in restoring and maintaining these rights.

Dr. Pilon received his award in April at a luncheon co-hosted by former Chief Justice of the United States Warren E. Burger. The National Press Foundation is a nonprofit educational foundation dedicated to excellence in American journalism.

Message from Moscow

What's the matter with our present pricing system? For one thing, prices are set centrally, from above, and that's faulty in principle. Wholesale prices are based on costs plus a minimum planned profit. The producer adds

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up all his costs of production, adds on his planned profit, and presents this figure to the State Committee on Prices for confirmation. Costs are pushed up since the producer wants to get a higher price, and the guidelines for profitability are strained to the limit since the producer needs to make a profit. The higher the costs and the margin of profit, the higher the prices and the better off the producer. But the consumer suffers—retail prices rise. The producer is in the driver's seat.

Chaos is averted only by administrative fiat: the planning bodies and the State Committee on Prices try to moderate the greed of the producers. But how? Arbitrarily, by the seat of their pants. How else can one explain the fact that the profit margin established for the Minister of Instrument Making, Automation Equipment, and Control Systems is one-third greater than that established for his colleagues in the machine-building conglomerate? Is this sensible? In addition to these problems, prices and profits depend less on the efficiency of production or on supply and demand than on the skill of the producer in inflating his costs and justifying his expenses and on the manager's energy and his contacts. The system encourages the enterprise to produce less, to raise prices, and to hoard supplies. . . .

The market will successfully replace the "irreplaceable" apparatus of central administration—all the committees, departments, and ministries. That's why the administrators don't like the market. When they manage less, things go better—that's what insults our officials. Let them be insulted; we will change to a market system no matter what they say.

But how are prices set in a market system? By supply and demand. I won't buy meat in cooperative stores for five rubles a kilo or in state stores for two rubles when I can buy it from the Arkhangelsk peasant for one ruble. And you'll probably do the same. What will happen? Prices will immediately drop in the cooperative and state stores. And wholesale prices will fall as well. If producers find this unprofitable, they will have to make adjustments and improve their efficiency—learning from the Arkhangelsk peasant—or else shift to producing something else.

Unlike the State Committee on Prices, the market will not support excess expenses and poor work. Those who know how to work will earn real money, and those who can't will either learn or they won't have any way to support themselves. Society has no obligation to pay for poor work, but it will willingly pay for efficient labor satisfying public demand, and thereby encourage and stimulate the conscientious and competent workman. This gives you some idea of how the market works to control socially necessary expenditures, to stimulate efficiency, and to set costs and prices.

—ALEXEI MYASNIKOV,
writing in *Glasnost*, a dissident publication founded in Moscow in 1987. Translation provided by the Center for Democracy in the U.S.S.R., 358 W. 30th Street, Suite 1-A, New York, NY 10001.

The Triumph of Capitalism

Less than 75 years after it officially began, the contest between capitalism and socialism is over: capitalism has won. The Soviet Union, China, and Eastern Europe have given us the clearest possible proof that capitalism organizes the material affairs of humankind more satisfactorily than socialism. . . . Indeed, it is difficult to observe the changes taking place in the world today and not conclude that the nose of the capitalist camel has been pushed so far under the socialist tent that the great question now seems how rapid will be the transformation of socialism into capitalism, and not the other way around, as things looked only a half century ago.

—ROBERT HEILBRONER,
a leading socialist economist, writing in the January 23, 1989, issue of *The New Yorker.*

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THE FREEMAN
IDEAS ON LIBERTY

Crackdown in China

by Pujie Zheng

Recent events in China have stunned the world. Since mid-April, the courage of the Chinese students who put their lives on the line to campaign for democracy, the self-restraint of the million Beijing citizens who staged a completely nonviolent demonstration, and the cruelty of the government that used tanks and machine guns against unarmed peaceful demonstrators have amazed and shocked people around the globe.

Background to Crisis

For the students, it is a political movement. But the common people went to the streets for economic reasons—they were disappointed with the government's inability to carry out the 10-year-old economic reform.

After the death of Mao Zedong in 1976, Hua Guofeng, Mao's designated successor, arrested the so-called "Gang of Four" and took over the government. According to the people's wishes, Hua Guofeng invited Deng Xiaoping to work in the government in 1978 to help him with the reform.

But Deng wanted the reform to go much further than Hua anticipated. For example, Hua insisted that whatever Mao Zedong had said should be kept as the Communist Party's policy. Deng was against that. With the support of the people, Deng Xiaoping prevailed over Hua Guofeng in 1979 and took over control of the country.

Deng first changed the Party's priorities. Against Mao Zedong's thought, Deng said that the class struggle was no longer the Party's top priority. The most urgent problem was the design of the socialist system. Deng's slogan—"No matter whether the cat is white or black, as long as it catches rats, it is a good one"—hinted at his adoption of some capitalist principles.

Deng understood that he needed foreign help in his economic reform. Under Deng, the Sino-Japanese Friendship Treaty was signed and diplomatic relations with the United States were solidified. China started to encourage foreign businessmen to invest, which was symbolized by several special economic zones around China that suffered less from government red tape and attracted a lot of foreign capital. China also welcomed foreign scholars.

Inside China, Deng Xiaoping resumed the college entrance exam. Anyone who passed the exam could go to college free of charge. After the re-establishment of the exam, students across the nation began to put their time and energy into studying.

Deng allowed college students to have access to a wide variety of Western materials. When I was studying in Qinghua University in Beijing, I was permitted to read *The New York Times, Time, Newsweek*, and many other foreign publications. Deng also allowed Chinese television to carry international news produced by foreign stations.

After the reform started, Deng found that the Party's bureaucracy was his biggest enemy. The

Pujie Zheng graduated from Qinghua University, Beijing, China, in 1985. Currently a graduate student in physics at the University of Virginia, he visited China at the height of the student unrest and military crackdown in May and June.

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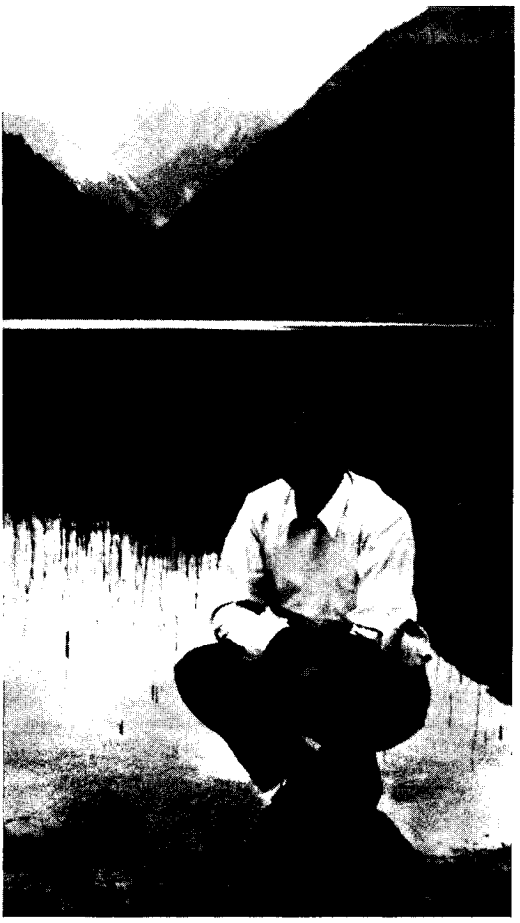

Author Pujie Zheng in Sichuan Province, China.

officials were too old and were experts only in "class struggle." They didn't have the experience or the knowledge to make their bureaus productive.

Deng forced all middle and low level government officials over 60 years old to retire, and replaced them with younger and better educated people. He promoted Hu Yaobang and Zhao Ziyang to the central government to be his chief aides in the reform. He spent much of his time making sure that the military wouldn't cause trouble for him.

Deng was unable to remove the senior high-level officials who were against his reform and were known as "old guard." All he did was to put those old guards aside by giving them ceremonial positions in the government.

After these preparations, Deng Xiaoping started his economic reform. He accepted the idea of using the market as a feedback to stimulate economic productivity. (Note: There were no independent companies in China at that time. The government owned everything.) In this way, productive factories which made needed goods would have more money to pay their workers and, in theory, would find it easier to get loans from the Construction Bank that was in charge of investment. Deng's reform changed the country's economic structure to the greatest extent since Mao's death. But there was one thing Deng Xiaoping did not want to reform—the structure of the government. He wanted to keep his absolute control over the country. For example, when the stock market was established, he did not allow stock prices to fluctuate freely, which largely reduced investors' interest in the stock market and curtailed the market's ability to put money into the most profitable and thus most efficient hands.

Deng did not understand that the success of the economic reform relied on the freedom of the players in the market. And the freedom of the players in the market depended on less government control.

By comparing China with foreign countries, the college students discovered this problem first. Besides their access to foreign publications, exchange programs sent many students abroad, which gave them firsthand knowledge of the Western world. When those students returned to China, they told their friends about what they had seen.

Also, the college students were the most faithful readers of the Western books which were translated and published in China. When books describing the idea of nonviolent protest were published, the students read them eagerly. The spirits of Mahatma Gandhi, Romain Rolland, Chinese translator Fu Lei, and others were planted deeply in the hearts of the people by those books.

As the economic reform went on, it became clearer to the students that it would have no chance of succeeding without democratic reform—the political leaders should be elected by the majority, and the minority (including students themselves) should have a chance to express themselves.

In 1987, the students went to the streets to express their thoughts. They had the support of Hu Yaobang. But they did not get much support

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from the common people because, in 1987, the economic reform was still heading in the right direction.

Deng Xiaoping did not want to lose any of his control. He fired Hu Yaobang as the General Secretary, moved Premier Zhao Ziyang to Hu's position, and promoted Li Peng, who was a representative of the old guard and a stepson of the late premier Zhou Enlai, to the Premier's position.

Although Zhao Ziyang was not as enthusiastic as Hu Yaobang in supporting the students' drive for democracy, he understood that political changes were unavoidable, saying, "As the economic reform developed, the political reform became unavoidable."

The unavoidable came in 1988, when inflation rose to over 30 percent. Living standards went down for the first time since the reform. Other problems, such as corrupt officials using their power to reap illegal gains (sometimes running into the millions of dollars) also irritated the people. In the face of those problems, Li Peng showed only his uselessness.

Although the conservatives had controlled the executive branch of the government since 1987, the Party was not in their hands. After Hu Yaobang was fired as the Party's General Secretary, he was still a member of the five-man Politburo Standing Committee, which gave him the right to vote for reform on all the important issues.

The Demonstration

The breaking point was in early April, when Hu Yaobang had a heart attack during a debate at a Party meeting. He was hospitalized and died on April 15. After Hu's death, the original balance of the Politburo Standing Committee was lost, and the reformers had virtually no chance of winning votes in the Committee.

On April 16, the students began to send floral wreaths to the Monument for People's Heroes in the center of the Tiananmen Square. Millions of people responded in support of the students, which brought the city of Beijing to a standstill.

Deng Xiaoping lost his temper. He underestimated the strength of the students at this time, and he forgot what Mao Zedong had said: "The ones who suppress the students will not have a good ending in their lives." With the support of the old guard and the army, Deng decided to crack down on the student movement.

On May 20, after Zhao Ziyang, who was then still the General Secretary, knew that a bloody crackdown was on its way, he insisted that Li Peng go to the Square with him and visit the students. After Li Peng had left the Square, Zhao Ziyang told the students, "We come too late. . . . We are too old to see the day when China is strong. But you are young. You should stay alive." The student leaders took Zhao's hint and began preparing to leave the Square.

But the old guard didn't want the students to retreat because they would lose their excuse to punish them. So before the student leaders took their vote on whether to leave the Square, the old guards broadcast Li Peng's and Yang Shangkun's speeches declaring martial law and describing the students as rioters. When the vote took place, the students who wanted to stay in the Square won by a small margin.

After Li Peng's speech, troops were sent into Beijing to carry out the martial law. But the students were stronger than the old guards expected. Beijing citizens flooded the streets. They blocked the army trucks and persuaded many soldiers to turn back against their orders.

Yang Shangkun, the President of China and a military lord, whose brother, sons, son-in-law, and other relatives are in key army positions, moved in 350,000 troops to prevent Beijing's 38th Army from interfering when the 27th Army under Yang Shangkun's brother was carrying out the crackdown. After several days of preparation, on the night of June 3 and the morning of June 4 the Chinese government declared war against its own people. Tanks crushed anyone in their way. Machine guns shot unarmed civilians. Fearing that the soldiers wouldn't shoot their countrymen, military leaders reportedly gave the soldiers injections of stimulant before they were sent to the city.

The command center designated the occupation of every street corner as a "military campaign," the word normally used to denote a major battle in a regular war.

One doctor said during the massacre that he felt he was in great danger because he knew too much about the situation of the students and the soldiers.

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Under the army's pressure, the students decided to leave the Square. But the army poured into the Square before the students retreated. Then Tiananmen Square, the Square of Heavenly Peace, became a slaughter-yard in which Chinese butchered Chinese. Because of the government news blackout, the death toll couldn't be confirmed.

Similar killing happened in Chengdu, the capital of Sichuan Province, the home of Deng Xiaoping, Li Peng, and Yang Shangkun.

The people's voice was diminished after the army's occupation of the Square. Some people stayed at home to listen to the Voice of America and BBC's Chinese news programs, which might be one of the reasons there were shortages of short-wave radios in some areas. And many others were deceived by the government.

The Future

The government took over Beijing, but they did not win. This is the weakest regime since 1949.

First, it is afraid of the truth. Before and after the bloody crackdown, the government tried its best to mislead the people.

As a Chinese proverb says, one cannot wrap fire with paper. There are simply too many people who know the truth of this event. Through word of mouth, it is only a matter of time before people throughout China know the facts. The other reason that the news blackout won't work is that this government is much less creative than Mao Zedong's. Their methods had been used by Mao—but Mao's techniques had been exposed to the public during the reform.

Second, Mao Zedong never paid people to demonstrate in support of him. But this regime had to pay the Beijing suburban people and bribe them with supplies of chemical fertilizer to demonstrate in its favor.

Last, before the military crackdown, the government reportedly moved $80 million to foreign banks and prepared airplanes for the leaders' escape. Mao Zedong never would have thought about escaping from China.

Such a weak regime, as described by one Chinese student, "The 80-year-olds are calling the 70-year-olds to decide which 60-year-olds should retire," is not going to last. And the representatives of the old guard, such as Premier Li Peng and the new General Secretary, Jiang Zemin, do not have the ability to run such a big country against the overwhelming majority of the people.

Deng Xiaoping has miscalculated the strength of the people. The blood in Beijing and other cities scared some. But it wakened more. After the Beijing Massacre, many people who used to be friends of the Communist Party had a change of heart. As the president of *Wen Hui Bao*, the leftist Hong Kong newspaper, said, "I have been a friend of the Chinese Communist Party. I was so even during the Cultural Revolution. But today, I feel shame to be a friend of theirs."

A government with no friend is weak. Such a weak government is not strong enough to turn back the economic reform measures which already had been carried out. So, the economic structure was not damaged by the student movement. And the day for people's success is not too far away.

With no doubt, this is one of the darkest times in China's history. But as a Chinese poem points out, "The darkest time has come. Is it going to be long before the dawn?" □

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The Rise and Fall of the Edsel

by Anthony Young

Mention "Edsel" to anyone over the age of 30 and you will hear pretty much the same response. While the answers may vary somewhat, practically everyone knows it was a car introduced in the 1950s that failed miserably. Many people will add that they think it bombed because of its bizarre front-end styling. But, in fact, the Edsel failed for more fundamental reasons.

The Edsel proved that mere size doesn't insulate corporate decision-makers from errors in judgment; large automotive corporations are just as capable of making major mistakes in new product planning, production, advertising, and marketing as smaller companies. It is a fascinating story that holds free market implications worth remembering.

The early 1950s were a euphoric period for automakers. In 1955 Americans bought a record 7,169,908 new cars. This auto-buying frenzy was just one aspect of the postwar economy that Vance Packard described in *The Status Seekers*, published in 1959.[1] In Packard's view, automobiles evolved from mere transportation vehicles just after World War II to symbols of middle-class affluence in the first half of the 1950s. The V-8 engine reigned supreme and horsepower was the watchword. In this heady market atmosphere Ford Motor Company conceived a new car that they hoped would help the company surpass General Motors in overall market share.

Mr. Young, a regular contributor to Automobile Quarterly, *has written extensively on automotive history.*

Seeds of Disaster

Ford executives attributed General Motor's large market share to GM's wide range of offerings—from the low-priced Chevrolet and Pontiac, to the mid-priced Buick and Oldsmobile, up to the luxury-priced Cadillac. Henry Ford II and Board Chairman Ernest Breech believed that the low-priced Ford, upper-middle-priced Mercury, and luxury-priced Lincoln car lines left a gap Ford should fill. A 1952 market study confirming this made the rounds at Ford and Lincoln-Mercury division headquarters. The new car should be for the young executive. By 1954, a task force drew up plans for a medium-priced car to be sold through Lincoln-Mercury dealers.

One top-level Ford executive, Lewis D. Crusoe, disagreed with the proposal, stating strongly that the new car should be a product of a whole new Ford division with its own dealer network. Henry Ford II and Ernest Breech agreed with Crusoe. This was the first key mistake in the Edsel saga and perhaps the most damaging.

The Ford Motor Company was restructured so that there would be distinct divisions for Ford, Mercury, Lincoln, and the yet-to-be-named mid-priced car division. In the summer of 1955, the staff for the new "E" (experimen-

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tal) car division was brought together in some inconspicuous buildings that had made up the short-lived Continental Division.

What's in a Name?

One of the first jobs for division president Dick Krafve was to select a name for the division and the models to be built. The task was fraught with peril. As author Robert Lacey put it, "The name had to excite the public while not alarming it unduly. It had to distance the new vehicle from existing Ford, Lincoln, and Mercury labels, while remaining reassuringly part of the same great family of automobiles. It had to satisfy all manner of other requirements, from starting with a letter that would look good on the front hood ornament, to not rhyming with anything rude."[2]

Market research had played a key role in developing both the concept and the name of the highly successful Ford Thunderbird, introduced in the fall of 1954. Ford again drew upon market research for the names of its new division and models.

Polling was conducted in New York, Chicago, and two small towns in Michigan, asking people not just for ideas, but what came to mind when certain names were suggested. The possibilities numbered 2,000. Foote, Cone and Belding, the new division's ad agency, ran a contest with its employees that produced 8,000 suggestions, later pared down to 6,000 names. In an effort to get new direction, the head of Ford market research contacted poet Marianne Moore, asking her to come up with names that would evoke "some visceral feeling of elegance, fleetness, advanced features and design." Among her more memorable suggestions were Resilient Bullet, Utopian Turtletop, Pastelogram, Mongoose Civique, Andante con Moto, and the Varsity Stroke.[3] Understandably, none of these was adopted.

In a meeting of the Ford Executive Committee in November 1956, exasperation reached its peak. Chairman Ernest Breech finally made the momentous decision. "Why don't we just call it Edsel?" he asked. Edsel Ford was Henry Ford I's only son. Edsel's three sons were William Clay, Benson, and Henry II. All three were opposed to Breech's suggestion, but the name was adopted.

Twelve months of work to come up with just the right name for the division had gone down the tubes. It was a name having significance only to the Ford family, not the man in the street. In fact, during name-association polling, "Edsel" brought forth responses like "Pretzel" and "Weasel." In a terse memo, public relations director for the new division, C. Gayle Warnock, typed, "We have just lost 200,000 sales."[4]

The names for the various Edsel models were chosen from a final master list having positive connotations. They were Pacer, Citation, Corsair, Ranger, and for the three station wagons, Roundup, Villager, and Bermuda.

The Recognition Factor

The styling of the Edsel is surely the most remembered aspect of the car. This, too, had a depressing effect on sales. Why did it end up looking the way it did?

The original Edsel took shape in the Ford Design Center and was kept under tight wraps. To begin with, photographs were taken of the front-end of every new domestic car. Although differing to a greater or lesser degree, all had basically the same horizontal design theme. The design chief for the Edsel proposed a vertical theme to give it the recognition factor Ford felt an entirely new car needed to set it apart. Lacey wrote, "With concealed airscoops below the bumpers, this first version of the 'E' car was original and dramatic—a dreamlike, ethereal creation which struck those who saw it as the very embodiment of the future."[5]

It was never to be. When all the concessions were made to accommodate cooling, ventilation, production costs, and a host of opinions, the Edsel that emerged in 1957 is sadly the one we remember today. The front-end was likened to an Oldsmobile sucking a lemon, a horse collar—even a toilet seat. The rest of the car, both inside and out, was really no better or worse than the other offerings in the late fifties. Ford achieved the recognition factor it was shooting for, but it wasn't positive recognition.

To build up interest in the new automobile, public relations director Warnock decided on

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1959 Edsel Ranger

COURTESY OF THE FORD MOTOR COMPANY

carefully controlled leaks to the print media. These took place over a two-year period prior to the Edsel's introduction. Both *Time* and *Life* made statements to the effect that the mystery car was the first totally new car in 20 years, and that it had been in the planning stages for 10 years. This was patently false. Far from being revolutionary, the Edsel borrowed heavily from both Ford and Mercury components.

In fact, during the first year of production, Edsels were built in Ford and Mercury plants. The Ranger and Pacer Edsels (including the Roundup, Villager, and Bermuda station wagons) were built on Ford chassis, and the Corsair and Citation Edsels were built on Mercury chassis. The Edsel division paid Ford and Mercury for each Edsel built. Every 61st car down the Ford or Mercury assembly line was an Edsel, so workers had to reach for parts in separate bins. Mistakes were made and quality on these hastily assembled cars suffered.

This became painfully apparent when Warnock planned to launch the Edsel. Automotive journalists were to drive 75 Edsels from Dearborn, Michigan, to their local Edsel dealers. The cars had to perform without mishap, and couldn't reveal any defects. After all, the car had been the subject of nearly two years of hype, and expectations were high. After a comprehensive testing procedure that took two months to complete, 68 cars were handed over to journalists and driven to their respective destinations. The other seven had to be cannibalized for parts. The average repair bill for each car came to roughly $10,000, which was more than twice the price of the top-of-the-line Edsel.

The Market Yawns

Ford officially introduced the Edsel in September 1957. "There has never been a car like the Edsel," the brochure read. Nearly three million curiosity seekers visited Edsel showrooms in the first week. Dealers pumped

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the car for all it was worth, but many people were underwhelmed. Aside from the radical styling, consumers couldn't understand what all the hype had been about.

Ford's fledgling automobile couldn't have been introduced at a worse time. The fall of 1957 was marked by a recession that had a severe impact on car sales. Compared to the previous year, Desoto sales plunged 54 percent, Mercury dropped 48 percent, Dodge was off 47 percent, Buick 33 percent, Pontiac 28 percent, and so it went. Ford had considered introducing the Edsel in June instead of September, but decided against it. Thus, only a little over 63,000 Edsels were sold in its first year. Some blamed the recession for the Edsel's poor sales, and this was partly true, but another new car, the American Motors Rambler, sold over 100,000 units in 1957 and twice that in 1958. The Rambler was the right car for the market—the Edsel was not.

Ford made yet another error with the Edsel. The company had introduced the snazzy, mid-priced Ford Fairlane in 1956, undercutting the Edsel's market segment. The Fairlane sold for less than the Edsel, and many car buyers who wanted a Ford product saw the car as a better value.

In an effort to cut its losses, Ford merged the Edsel division with Lincoln-Mercury and, for 1959, cut back on available models, added an optional six-cylinder engine, and altered the car's styling somewhat. Plans already were in motion to revamp the Edsel's look for 1960. Just under 45,000 Edsels were sold in 1959.

Even as the completely restyled 1960 Edsels were rolling down the assembly line, the decision had been made to cease production. Only 2,846 units were sold in the car's third and last year.

Market Lessons

The Edsel serves as a textbook example of corporate presumption and disregard for market realities. It also demonstrates that advertising and pre-delivery hype have their limits in inducing consumers to buy a new and unproven car. In a free market economy, it is the car-buying public, not the manufacturer, that determines the success or failure of an automobile. A manufacturer shouldn't oversell a new car, or unrealistic expectations will be built up in the minds of consumers. If the newly introduced car doesn't live up to expectations, it is practically doomed on the showroom floor.

Ford learned from the Edsel that it couldn't dictate to consumers what they should buy. It hasn't made a similar mistake since. Several years after the Edsel's demise, Ford introduced the Mustang, a brand-new, sporty, affordable car Americans eagerly embraced. More recently, Ford introduced the Taurus, again a response to the car buyer's needs and wants, which has proved a tremendous market success. The Edsel, on the other hand, will remain an automotive oddity—the answer to a question nobody asked. □

1. Vance Packard, *The Status Seekers* (New York: David McKay Company, 1959), pp. 312-316.
2. Robert Lacey, *Ford: The Men and the Machine* (Boston: Little, Brown and Company, 1986), p. 481.
3. Len Frank, "The Edsel: It Really Was That Bad," *Collectible Automobile*, July 1984, p. 62.
4. Lacey, pp. 483-484.
5. *Ibid.*, p. 481.

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Crime and Consequences

by Robert James Bidinotto

Summary of Parts I and II: The crime explosion of recent decades coincided, ironically, with welfare-state programs to address alleged "causes" of crime and with efforts to supplant inmate punishment with "rehabilitation." These reforms were implemented by an "Excuse-Making Industry" of social scientists, whose fallacious deterministic theories held that criminals were helpless "victims" of social, psychological, or biological forces supposedly beyond their control.

Treating criminals as victims undermined justice and began to bias the criminal justice system on their behalf. "Reforms" helpful to criminals included new courtroom rules excluding certain voluntary criminal confessions and factual evidence; lenient bail and release-on-recognizance practices; and routine sentence-reduction and release policies, such as plea bargaining, probation, parole, and insanity defenses. These measures not only have failed to reduce criminality; they have diminished public safety. So have "progressive" correctional programs, to which we now turn our attention.

Part III: "... To Insure Domestic Tranquility ..."

What to do with criminals? Those relatively few criminals netted by the criminal justice system must be dealt with somehow. Over the centuries, society has employed countless methods to accomplish a variety of purposes: punishment and retribution, deterrence, incapacitation, moral education, and rehabilitation.[1]

And yet crime continues to increase. Here again, Aristotle's point about causality applies: the nature of an entity determines what it will do. The fundamental reason for the intractable crime problem is that previous crime-control efforts have failed to consider *the nature of the criminal himself.* To reform the criminal justice and correctional systems—and, we hope, the criminal—we must first understand something about the criminal mind.

Copyright 1989 by Robert James Bidinotto. *Mr. Bidinotto, who has written several articles for* The Freeman, *is a full-time writer and lecturer specializing in political and cultural topics.*

"Inside the Criminal Mind"

Numerous empirical studies demonstrate that criminals simply don't *think* like non-criminals.

A representative study in Colorado found that, even at an early age, future delinquents had "less regard for the rights and feelings of their peers; less awareness of the need to accept responsibility for their obligations . . . and poorer attitudes toward authority, including failure to understand the need for rules and regulations in any well-ordered social group. . . . They were significantly less likely than their nondelinquent [peers] to be viewed as dependable, friendly, pleasant, considerate, and fair." Many other studies have echoed these findings.[2] Stanton Samenow describes the criminal mind thusly: "Despite a multitude of differences in their backgrounds and crime patterns, criminals are alike in one way: *how they think* . . . [all] regard the world as a chessboard over which they have total control, and they perceive people as pawns to

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be pushed around at will. Trust, love, loyalty, and teamwork are incompatible with their way of life. They scorn and exploit most people who are kind, trusting, hardworking, and honest. Toward a few they are sentimental but rarely considerate. Some of their most altruistic acts have sinister motives . . . ."

Such traits are also typical of what is called the "psychopath" or "sociopath," as Samenow makes clear. "Although diagnosticians may make distinctions between the psychopath and criminal, for all ostensible purposes, one differs hardly at all from the other." Among the common characteristics of the criminal and psychopath: a short-range, self-indulgent outlook on life; a lack of any sense of self-responsibility; the desire to manipulate and dominate others through chronic deception and force; and the ability to shut off his conscience at will.[3]

At one time, the criminal was even described as a "moral imbecile"—one whose shortcomings were primarily *ethical*.[4] Summarizing numerous studies of criminal psychology, Wilson and Herrnstein note that "one of our recurrent themes in these test data is the lack of internalized constraints"—e. g., what used to be called "conscience."[5]

The criminal welcomes anything that would assist him in his predatory behavior. And here, the Excuse-Making Industry is invaluable to him. Its overall ethical thrust has been to excuse malicious behavior and thus deaden the pangs of conscience. By concocting theories, policies, and programs which excuse irresponsibility, Excuse-Makers have fostered a general social climate of moral relativism—thus undermining any guilt feelings which might act as inner constraints on criminal behavior.

If a salient trait of psychopathic criminality is a deadened conscience, then the sudden takeoff of crime during the heyday of moral relativism—the 1960s—makes even more sense. There is even more specific evidence of this: the simultaneous *geometric* increase in the number of so-called "serial killers" on the prowl.

The serial killer is a nihilistic repeat murderer, who often commits ghastly crimes out of pure hatred for society. As FBI experts describe him, he "exhibits complete indifference to the interests and welfare of society and displays an irresponsible and self-centered attitude. While disliking people in general, he does not avoid them. Instead, he is capable of displaying an amiable facade for as long as it takes to manipulate people toward his own personal goal. He is a methodical and cunning individual . . . fully cognizant of the criminality of his act and its impact on society, *and it is for this reason that he commits the crime*." [Emphasis added.][6]

Ominously, as many of these multiple murderers emerged during the 1960s as during the four preceding decades combined. During the 1970s, their number nearly tripled over that of the 1960s; and that figure, in turn, has been tripling again during the 1980s.[7] If a deadened conscience is a salient feature of the criminal, it is a *defining* trait of the serial killer. The abrupt geometric increase in this most depraved form of antisocial behavior is inexplicable—unless we consider the abrupt erosion of the moral landscape, and moral conscience, since the 1960s, courtesy of the Excuse-Making Industry.

The failure of the Excuse-Makers to understand the criminal mind has crippled their ability to design effective remedies for crime. We've already seen the disastrous consequences of their influence upon the criminal justice system. Now consider, more briefly, their corruption of the so-called "correctional system."

The Correctional System

The Excuse-Makers' revolution in penology was consolidated during the 1960s and 1970s. "The day—if there ever was one—when vengeance could have any moral justification passed centuries ago," declared former Attorney General Ramsey Clark in his influential 1970 book, *Crime In America*. "Punishment as an end in itself is itself a crime in our times . . . . The use of prisons to punish only causes crime . . . . Rehabilitation must be the goal of modern corrections. Every other consideration should be subordinated to it."[8]

And it was. Today's "correctional facilities" are designed for the outwardly mobile. Closer relationships between prison staff and inmates are encouraged. Discipline has been relaxed,

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and punishment largely banished. Inmates are to be enticed from their criminal ways—through counseling and group therapy sessions, vocational and educational opportunities, input into prison policy-making, a host of programs for "self-expression" and entertainment, and participation in various release programs. This atmosphere is primarily a result of indeterminate sentencing provisions, under which an inmate may be released on parole whenever authorities feel he has reformed.

For example, under Massachusetts laws, a "state prison" sentence means that only one-third of the inmate's *minimum* sentence must be served; and a six to twelve-year "reformatory" sentence means he'll be parole-eligible in one year—or, if he's a repeat offender, in 18 months.[9] Likewise, in Oregon, a felon sentenced to five years for a major crime may do as little as *one month*; for a lesser felony, he'll do *one day*. (Outraged Oregonians recently passed a "truth-in-sentencing" referendum to end such practices.)[10]

The most egregious instances of early release are in the case of "life" sentences. Contrary to public impressions, a sentence of "life"—or even "life without possibility of parole"—almost never means that. In states like Massachusetts and Nebraska, "life without parole" sentences "routinely are commuted to parole at some point."[11] In Wyoming, "life" means 20-25 years before parole eligibility; but with "good time" (i.e., good behavior reductions), a "lifer" might spend half that time in prison. "Life" actually means about twelve years before parole eligibility in Virginia[12] and Kentucky; ten years in Mississippi and West Virginia; and seven in Georgia.[13]

The likelihood of speedy release on parole has shaped the entire prison environment. In essence, the "plea bargaining" process, which begins in the courtroom, extends into the prison itself.

The inmate generally behaves himself, participates in rehabilitation programs, and perhaps proclaims a sudden religious conversion. If single, he may place "lonely hearts" classified ads in newspapers, hoping to spark an outside romance that (thanks to furloughs) will lead to marriage and children—and hence, evidence of a "stable family" of dependents who "need" his presence. This all looks good to the parole board.

For their part, prison authorities make deals, extend privileges, tend to inmate grievances, and are rewarded with a relatively quiet prison population. Pragmatic considerations—costs, overcrowding, and the desire to curtail violence—have reduced them to tacit co-conspirators with inmates in an awkward charade: the inmates pretend to reform themselves, while their keepers pretend to believe them.

In short, the carrots of outside release programs, special privileges, and ultimately, early parole, have replaced the disciplinary sticks of punishment in keeping the prison system running smoothly. The only casualties are truth and justice.

From Rehabilitation to "Reintegration"

But while prisons were reshaping themselves according to the new rehabilitation dogma, a distressing thing was happening: rehabilitation efforts were failing, universally and miserably.[14] Yet the collapse of rehabilitation didn't prompt the Excuse-Making Industry to question its deterministic premises. Instead, its members rooted about desperately for still another excuse to continue the rehabilitation approach.

"While numerous theories have been offered to explain the failure of rehabilitation," admitted the Massachusetts Department of Correction (DOC) in a 1988 report, "many have commonly traced this failure to the very nature of the incarceration process itself, as well as counter-productive forces operating within the prison community or, in other terms, 'prisonization.'"

And what is "prisonization"? "According to the prisonization hypothesis, prison incarceration produces damage by interrupting and interfering with the offender's life cycle—school, work, heterosexual relationships, finances, etc. —at a time when the damage is most harmful, between the ages of 18 and 30 . . . . Offenders have traditionally been taken out of our society and placed in another social system, the prison, that in no way constructively resembles

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the society to which they will eventually return."

The DOC concluded that ". . . rehabilitation per se is not the problem, but rather those 'prisonization' forces which greatly overshadow and diminish rehabilitation efforts."[15] The problem, in short, is that we're trying to rehabilitate inmates *in prison*.

The Excuse-Makers' ingenious "solution" was that inmates should still be rehabilitated—not behind prison walls, but *out in the community*. Hence, the "reintegration model," which "assumes that offenders can better learn to obey the law if they are involved through personal and social ties with the normal institutions of the community—family, church, and the workplace."[16] Observe that the DOC report refers to "prisonization" as a mere "hypothesis," and makes clear that the reintegration model only "assumes" the benefits of what is often called community-based rehabilitation. This is appropriate, for there is no evidence to support them. The Excuse-Makers' deterministic premises prevent them from ever asking how it is that a "normal" outside environment managed to "shape" the inmate into a criminal in the first place—or how returning him to it will keep him out of future trouble. In fact, the criminal, by choice, was never part of normal society.

"It is misleading to claim that the criminal wants what the responsible person wants, that he values the same things that a responsible person values," Samenow argues. Rehabilitation "cannot possibly be effective because it is based on a total misconception. To rehabilitate is to restore to a former constructive capacity or condition. *There is nothing to which to rehabilitate a criminal.* There is no earlier condition of being responsible to which to restore him . . . . [Likewise] the notion of 'reintegrating the criminal into the community.' It is absurd to speak of reintegrating him when he was never integrated in the first place."[17]

The criminal lives within a criminal subculture, where "normal" people and institutions are to be used, victimized, and manipulated. Typically, his family is neglected or exploited; his jobs (if any) serve as mere launch pads for wider criminal activity; and his involvements with respectable institutions are a cover, masking his felonious activities. Without his changing his *thinking*—something the criminal must *want* to do himself—his rehabilitation and reintegration prospects are nil, Samenow concludes.[18]

"Prisonization" is only the latest rationalization to mask the Excuse-Makers' visceral hostility to punishment and prisons as such. As early as 1951, in his widely acclaimed *Break Down the Walls*, John Barlow Martin wrote that "Prisons should be abolished."[19] Writers such as Ramsey Clark, John G. Wilson, Jessica Mitford, Donald Powell Wilson, and Karl Menninger (among many others) sometimes went as far, or nearly so. Their views won a quasi-official status. The National Council on Crime and Delinquency recommended that no new prisons be built until all other options were examined.[20] Likewise, the American Law Institute's influential Model Penal Code recommended that courts not impose a prison sentence except as a last resort for public safety.[21] The idea of imprisonment was even subverted from within. In a revealing instance of the fox guarding the chicken coop, John O. Boone—who pioneered "community-based corrections" as Commissioner of Corrections both in Washington, D. C., and in Massachusetts in the early 1970s —later founded the National Campaign Against Prisons.[22]

But the Excuse-Making Industry would take what it could get, and its last-gasp efforts to salvage rehabilitation paid off. In 1965, the Federal Prisoner Rehabilitation Act gave Federal sanction and support to nationwide "community-based corrections" experiments, such as work-release programs, home furloughs, halfway houses, and the like. This seed money, one proponent wrote, "began a new era, with community-based corrections as a major component in the field of criminal justice."[23] Like the phoenix, rehabilitation had risen from the ashes in new garb. But has "community-based corrections" worked any better than traditional rehabilitation?

Prison Furloughs

A "prison furlough" is the temporary release of an inmate back into the community.

Furloughs, usually under armed guard, used

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to be granted only as rare exceptions, typically to let an inmate attend a family funeral or get emergency medical care. Yet thanks to the Excuse-Making Industry, unescorted prison leaves, in the guise of "community-based corrections," are now a routine part of prison life in most states.

Given that only a tiny percentage of criminals are ever imprisoned, it makes no sense to allow them, once captured, the chance to escape or commit further crimes. Yet every week, across the nation, thousands of society's most vicious robbers, rapists, and killers are allowed to participate in what is supposed to be an "honor system." In 1987 alone, some 200,000 furloughs—ranging in duration from four hours to 210 days (in Oregon)—were granted to more than 53,000 prison inmates. [24] In many states, furloughs are granted, at least occasionally, even to murderers serving nominal "life" sentences, usually when they are nearing parole or after a sentence commutation. Until aroused citizens forced a change in its laws last year, Massachusetts routinely furloughed first-degree murderers supposedly *ineligible* for parole.

The Massachusetts example shows just how far the Excuse-Making Industry is willing to go. As a sympathetic writer put it, "Under the Massachusetts concept of repair rather than revenge, no person is believed beyond redemption, not even a rapist or a killer."[25] That's why, despite "the fact that 85 percent of the DOC inmate population has a present or past violent criminal history,"[26] 28 percent of that population had participated in the furlough program as of January 1987. Since the program's inception in 1972, 121,713 furloughs had been granted to 10,835 Massachusetts inmates; 5,554 of those unescorted leaves were taken by *first-degree murderers*, supposedly serving "life without parole" sentences.[27]

The results, predictably, have included chronic escapes, and grisly crimes committed by furloughed inmates—up to and including multiple murders.[28]

If rehabilitation is one excuse for granting furloughs, there are pragmatic ones, too. Massachusetts Correction Commissioner Michael Fair testified that furloughs for murderers were "a management tool for [inmate] behavior . . . . [I]t would be more dangerous to run a system without a furlough program."[29] Why? "Once we have removed all hope from someone," he explained, "then we have the difficulty of dealing with someone who has nothing to lose. We would have a very dangerous population in an already dangerous system."[30] But if armed guards can't control "very dangerous" killers inside prison walls, how are unsuspecting, unarmed citizens supposed to deal with them on the streets?

Such release programs, and the tragedies they foster, are inexcusable, and can be defended only by factual misrepresentations. Similar techniques are commonly used to defend *all* release programs, so a brief survey is appropriate.

For instance, Massachusetts officials proclaimed a furlough "escape rate" of only 0.5 percent. This impressive-sounding number was calculated by dividing the 428 escapees by the 121,713 furloughs granted from 1972 through 1987. However, those furloughs were granted repeatedly to only 10,835 *inmates*.[31] Dividing 428 by *that* number reveals an actual escape rate of *one out of every 25 furlough participants*—hardly a record to boast about.

The tale of Peter J. Limone shows another way in which "escape statistics" mislead. Limone is a gangland figure sentenced to "life without parole" for a contract murder. Nonetheless, in 1987 he was in a Boston prerelease center, preparing for "reintegration," when authorities found that he'd been using the center—and some 160 furloughs—to manage a local loan-shark operation. Limone's furloughs, of course, still count as 100 percent successful on DOC records—simply because he always returned.[32]

Another way of claiming the "success" of furlough and other release programs is by manipulating recidivism statistics. A "recidivism rate" is the percentage of inmates who, once released, return to crime. Depending on how one measures "return to crime," however, such numbers can show glowing success where there is none.

Does one measure "return to crime" over a six-month period, one year, three years, or five years? The shorter the time span, the smaller the recidivism rate. Does one simply count re-

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arrests? or re-convictions and re-commitments to a state prison? The latter numbers also artificially reduce the recidivism rate.

Another trick is to use selected samples. One report claimed that 1984 parolees who had *not* had the "benefit" of a furlough program had a 31 percent recidivism rate. This was much higher than the 12 percent reported by parolees who had furloughs. The conclusion: furloughs reduce recidivism.[33] But unmentioned was the fact that inmates are *prescreened* for admission into release programs: those with the worst prison disciplinary records are not eligible. This biases the sampling procedure at the outset, by comparing bad apples with the *worst* apples. Program participation itself, therefore, has nothing to do with lowering recidivism.

Statistics aside, the most compelling argument against inmate furlough programs is their fundamental injustice, both to past and prospective crime victims. For victims and their families, the emotional strain of knowing that the perpetrator is allowed to walk the streets freely becomes unbearable. They often dread the day—or night—of the criminal's return, or of a chance encounter on a street or in a restaurant.

It is inexcusably cruel that taxpaying crime victims should have to bear these additional burdens, imposed on them by their paid protectors. It's even more monstrous that, in some states, they aren't even informed when their tormentor is turned loose.

Work Release

Everything said about furloughs applies to "work release"—the (supposedly) supervised release of an inmate to work at a job in the community.

From their earliest days, work release programs—like all other outside release schemes—have been exploited by criminals bent on remaining criminal. Because of their low-security status, work-release programs are responsible for a huge share of all prison escapes. In Massachusetts, for example, 26 percent of all prison escapes were from work release.[34]

Work programs—inside or outside the walls—don't reduce inmate recidivism. For instance, about 50 percent of work-program graduates in New York are re-arrested *within six months*—roughly the same percentage as those who simply come out of jail.[35] Other programs surveyed have shown similarly dismal results.[36] And those few studies showing lower recidivism for work release inmates invariably suffer from the same "selection bias" sampling errors cited earlier for furlough studies.

In general, vocational training of inmates is based on the idea that unemployment causes a life of crime. Train the inmate in a job, the reasoning goes, and help him find employment on the outside, and he's less likely to "have to steal" for a living.

But a fallacy underlies the assumption. Does unemployment lead to criminality—or vice-versa? "Criminals are at heart antiwork," Samenow argues. "For many criminals, work means to sell your soul, to be a slave." When employed, many criminals use their jobs as further opportunities for crime. Indeed, a Rand Corporation survey of 624 California prison inmates found that 27 percent had been regularly employed at the time they were engaged in crime. Being employed and being a criminal, then, are not mutually exclusive.[37]

To assume that a job will reform a criminal is to assume an economic cause for criminality—just another symptom of the "sociological excuse" for crime.

Other Community-Based Correction Programs

There are many other outside release programs to ease the transition of the inmate back into society: for instance, pre-release centers, halfway houses, and drug treatment centers. All suffer from the same fundamental flaws.

There may be some argument for a gradual introduction of a long-term inmate back into the community at the end of his sentence, when there's little incentive for him to escape or commit crimes. But a lengthy stay in a pre-release institution, long before his release date, is simply inviting trouble.

Because its correctional system sports a wide variety of such "alternative" and "diversionary" institutions, Massachusetts again pro-

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vides interesting evidence of the "success" of such programs. During 1985, 71 percent of the 284 escapes occurring in all Department of Correction facilities were from pre-release centers.[38]

Some might find that acceptable, if there were any evidence that participation in pre-release centers lowers recidivism. But there isn't. It's another example of the Excuse-Maker's wishes being father to his thoughts and plans. The earlier-cited example of the mobster using a pre-release facility as a headquarters for loan-sharking illustrates the rehabilitative powers of such institutions.

There are countless hybrid programs, combining work release with community service, or involving prisoners in the rehabilitation of mental patients. These have been plagued by inmate escapes, abuse of patients and staff, access to drugs and contraband, and the like.[39]

But it's pointless to belabor every variation on the theme of "community-based corrections." Such programs can't work, because "reintegration" is a flawed concept. Reintegration programs are designed by normal people, for normal people. They all assume that criminals think and feel like normal people. But they don't.

The Failure of Rehabilitation and Reintegration

Practical Considerations

The argument is often made that such experiments, even if flawed, are (a) no less successful than imprisonment, and (b) far less costly to society. Both arguments are false.

(a). After thorough research, Wilson and Herrnstein concluded: "However one measures crime, it is less common in places where sanctions are more likely." For instance, one study of boys convicted of serious crimes found that those sent to reformatories showed a *greater* reduction in their re-arrest rates than those put into community-based programs like foster homes, halfway houses, and wilderness camps. In fact, "the more restrictive the supervision in these more benign programs, the greater the reduction in recidivism."[40]

(b). The National Institute of Justice (NIJ) released a 1987 study comparing the social costs of prisons to having prisoners out on parole, probation, or in community-release programs. It found that building more prisons and filling them with criminals cost far less than what society pays for having criminals on the loose.

The NIJ survey of 2,190 inmates in three states found that each committed an average of 187 crimes per year. These cost an estimated $430,000 per criminal in law enforcement expenditures, victim and insurance losses, and private security measures. This compares with about $25,000 a year to build a prison cell and keep a prisoner in it. Putting 1,000 more offenders behind bars during the 1980s would have cost an additional $25 million a year—but would have averted an average of 187,000 crimes each year, costing society about $430 million.[41]

On practical grounds, *incarceration works*—serving the goals of retribution, deterrence, incapacitation, and punishment.

Moral Considerations

But the moral issue is of overriding importance; and here, the "reintegration model" is utterly indefensible. At the core of their defenses of parole, furloughs, and all other release programs, Excuse-Makers believe that occasional innocent victims are "acceptable losses."

"The [low escape rate] numbers cannot excuse the harm suffered by victims of crime committed by furloughed inmates," conceded one Excuse-Maker. "However"—he quickly added, excusing the inexcusable—"public officials making decisions regarding the furlough program . . . must weigh the risk of this harm along with the benefit to the larger community."[42]

This cost-benefit approach—"to balance public protection with the management of our prisons and rehabilitation of inmates"[43]—is ethically appalling. It elevates bureaucrats and politicians to a godlike status, letting them decide who lives and dies. Worse, it proposes sac-

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rificing innocent human lives—merely to appease potentially rowdy inmates, or to let killers and rapists have "another chance."

One magazine's reporters showed how victims are typically reduced to faceless statistics in such calculations. Note the use of the word "only": "Of 457 murderers who were freed on full parole [in Canada] between 1975 and 1986, only two individuals have been convicted of a second homicide. Indeed, convicts on early release committed only 130 of the 7,838 Canadian homicides that occurred during that same 11-year period—less than two percent."[44]

Hugh Haley, executive director of Ontario's John Howard Society—which advocates lenient parole for murderers—summed up the Excuse-Makers' ethical premise even more bluntly. "Are we going to keep hundreds of people in jail," he demanded, "just to save two or three?"[45]

Replied one of Willie Horton's victims, Cliff Barnes, in a similar context: "So we're expendable. Is that what they're saying?"[46]

That, indeed, is what the Excuse-Making Industry is saying. That, in fact, is what the reintegration premise requires.

Reforming the Criminal Justice System

If *justice* is truly to become the central focus of the criminal justice system, then the following reforms—some controversial—must be seriously considered.

Truth in the Courtroom

No facts should *ever* be banished from criminal proceedings. All exclusionary rules concerning evidence and confessions should be eliminated. If police obtain evidence by improper or illegal methods, that should be the subject of *separate* disciplinary or even criminal proceedings against the offending officers. But *evidence is evidence.*

Additionally, it's usually absurd to exclude an individual's past record from court deliberations. Career criminals often operate in unique patterns, which can serve as virtual signatures at certain crime scenes. Yet past records are often excluded as "prejudicial." Admitting these in evidence, to show a pattern consistent with the charged crime, only makes sense. Also, consideration of an individual's past record should be a routine element in all sentencing.

Juvenile offense records are often sealed, allegedly to prevent "early mistakes" from "pursuing the child into adulthood." Today, many teenagers are engaging, not in mistakes, but in serious, sadistic crimes. Sealing or expunging their records when they reach adulthood is another perversion of the fact-finding process. They should be admissible into adult sentencing proceedings, as evidence of career criminality.

Bail, Release on Recognizance, and Probation

Career criminals—and anyone with a history of escapes or failures to show in court—should *never* get bail consideration.

As for probation, every crime, no matter how petty, should merit *some* level of punishment, if only to show that *crime has inescapable consequences*. Probationary "sentences" teach offenders—*especially* impressionable young offenders—that "the law" is a paper tiger, that they can get away with crime. A young offender's first brush with the law shouldn't be brutal; but it should definitely be something he'd not wish to experience again.

Plea Bargaining

Plea bargaining should be abolished. Neither necessary nor ethical, it corrupts the entire court process and everyone involved. The cooperation of some criminals should not be bought with the bribe of a reduced sentence: the prize never equals the price. Going easy on lower-level crooks in order to buy their testimony against their bosses merely shuffles the underworld hierarchy: the boss is replaced by the lower-level crook who bought his freedom, and crime marches on.

Even if tough, determinate sentencing laws are passed, they will be undermined and bypassed if plea bargaining is permitted: charges will be reduced to evade the harsher penalties. Ending plea bargaining is the key to making tougher sentences stick.

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Psychiatry in the Courtroom

The use of psychiatrists and psychologists as "expert" witnesses should be banned. So should the "insanity" and the "diminished capacity" defenses. Criminal intent and the mental state of a defendant should be determined by the same kinds of evidence and testimony as are used in all other criminal proceedings.

Victims in the Courtroom

"Victims are 'legal nonentities' in the justice system," writes William Tucker. "The legal fiction is that 'the state' is the victim of crime. The victim has no more standing in a criminal trial than any other witness has—and a good deal less than the accused."[47] The defendant, of course, has official standing and defense representation—paid for, in many cases, by the taxes of his victim.

The *individual* is the crime victim, not the state. For that reason, well-meaning "victim compensation" laws should be opposed: it's unjust that every taxpayer should have to compensate a crime victim for a criminal's acts. But there *are* many things that should be done for the victim.

Prosecutors should be required to keep the victim informed of the status of his case; and he should be allowed to attend any proceedings. Victim impact statements should be allowed prior to sentencing, at least whenever the defendant is allowed to introduce "mitigating circumstances." Until release programs are abolished, victims should have the chance to testify prior to any release decisions, before the appropriate agency.

Restitution from the criminal to the victim is good in theory, but tough to enforce. However, it should always be an option, to be added to any sentence.

Sentencing

First, "indeterminate sentencing"—and the parole process which is its offspring—must end. All convicted felons should serve fixed, determinate sentences for their crimes. Early release being out of the question, there's no reason for parole boards (more savings for taxpayers). This will reduce arbitrariness and the unfairness of inmates serving different sentences for the same crime.

Pre-sentencing defense testimony concerning mitigating circumstances should be admissible only in the case of a *guilty plea.* If a defendant pleads innocent, but is later found guilty, he shouldn't be allowed to abruptly concede his guilt after the verdict, then plead mitigating circumstances before sentencing—not after putting everyone through the trouble and expense of a trial. In all cases, mitigating testimony should be balanced by testimony from crime victims. These statements should be gauged on some fixed point system for altering the usual sentence—but only within a very limited range.

Criminal penalties should increase in severity upon subsequent convictions of other felonies. Borrowing terminology from the Excuse-Makers, I propose "progressive sentencing": the term of imprisonment for repeat offenders should increase in multiples—say, two years for a first burglary conviction; four for a second; eight for a third; and so on. I also propose that this "progressive" feature be transferable among different sorts of crimes, thus preventing criminals from simply varying their crimes in hope of avoiding serious punishment.

Capital punishment never should be applied in cases where a murder conviction depended largely on circumstantial evidence. But in cases of pre-meditated murder in which there is no question of guilt, it should be the *standard* sentence. There also should be a time limit on the appeals process.

The Overcrowding Problem

Our courts and prisons are badly clogged, in large part because of the crime wave fostered by the Excuse-Making Industry, whose only response is to set more criminals free.

The first, obvious solution—as the National Institute of Justice study makes clear—is to build more prisons. Citizens should realize that they're far safer living next door to a prison than having the same criminals free on probation, parole, or release programs because of "overcrowding." And it's far cheaper.

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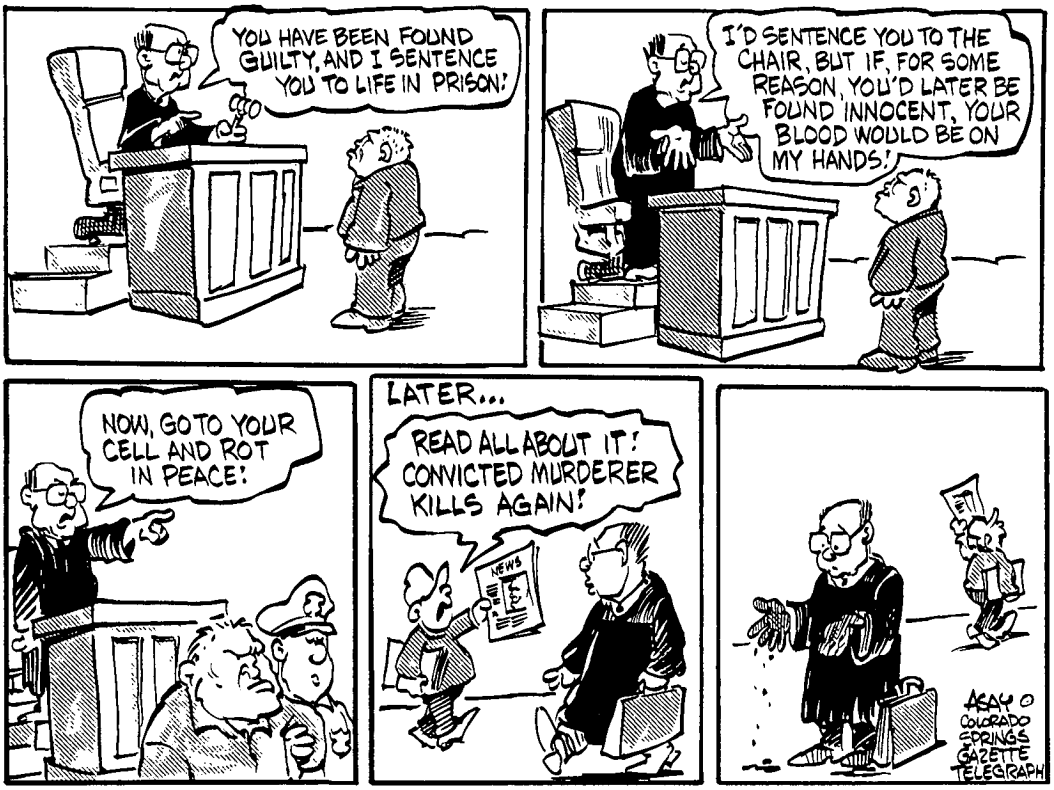
YOU HAVE BEEN FOUND GUILTY, AND I SENTENCE YOU TO LIFE IN PRISON!
I'D SENTENCE YOU TO THE CHAIR, BUT IF, FOR SOME REASON, YOU'D LATER BE FOUND INNOCENT, YOUR BLOOD WOULD BE ON MY HANDS!
NOW, GO TO YOUR CELL AND ROT IN PEACE!
LATER...
READ ALL ABOUT IT! CONVICTED MURDERER KILLS AGAIN!
NEWS
ASAY © COLORADO SPRINGS GAZETTE TELEGRAPH

But much of the overcrowding problem is because of laws that shouldn't exist.

Today, we have a terrible drug problem, and an enormous drug-related crime problem. Perhaps 25 percent of prison space[48] is occupied by those who've committed drug-related offenses. Many arrested for burglary, robbery, and larceny are drug addicts, stealing to support expensive habits.

But these habits are expensive precisely *because of the illegality of the drugs*. There are enormous profits in supplying illegal commodities at higher-than-market prices—something criminals are always willing to risk.

Legalizing drugs and other "victimless crimes," many fear, would lower their price, increase their availability, and thus make them even more attractive, particularly to youngsters. But would it? Currently, untold thousands of youngsters see drug-dealing as their best hope for glamor and wealth. This entices them into the subterranean criminal world of drug-peddling and—ironically—drug use. Taking the profits out of drug-dealing, via legalization, would strip away the incentives of wealth and any illusions of glamor. It would end the present widespread seduction of youngsters into the drug world *as suppliers*.

To legalize drugs is *not* to endorse them, and it doesn't mean we approve them. We simply go our own ways, allowing foolish, irresponsible people to be their own victims—because we recognize that laws can't turn fools into sages. More important, we rightly fear granting to government the power to become an armed busybody, intruding into our private lives and most personal decisions.[49]

At root, our drug problem is a self-esteem problem. Happy, fulfilled, self-respecting people don't become drug addicts. But passing laws can't give people self-esteem. The morally confused or emotionally empty will turn to some other palliative—alcohol, cults, or promiscuity.

Legalizing drugs won't cure the drug problem. But it will go a long way toward curtailing drug-related *crime*—and the huge burdens it is imposing on our criminal justice system and on ourselves.

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Correcting the Correctional System

Prisons

"Corrections" don't correct. "Correctional facilities" should drop that pretense, and rename themselves "prisons." With the end of indeterminate sentencing and release programs, prisons can focus on their major goal: public safety. The prison exists, first and foremost, to incapacitate the offender from committing further crimes. It need not be brutal or inhumane to accomplish that; but order should be maintained by increasing penalties, not privileges. Prison authorities shouldn't negotiate with criminals for responsibility and calm: they should enforce it.

Opportunities should be afforded to those inmates who care to improve themselves: job training, high-school equivalency courses, etc. But that doesn't mean world-class law libraries, gymnasiums, cuisine, and the like. Inmates have no right to expect better living conditions than do military men, who somehow manage to survive chow lines, forced marches in heavy gear, double bunks, and collective living arrangements. Is it too much to require a convicted felon to share a cell with another inmate, or to keep it clean and neat? Is it too much to demand that he work at a prison job, helping offset the costs he's imposed on taxpayers?

Rehabilitation

A lot of money can be saved, and mischief averted, by sending the legions of prison psychiatrists, counselors, and social workers packing.

An alternative is available. For many years, clinical psychologist Stanton Samenow has been working to "habilitate" hardened criminals. His methods, which don't require advanced psychological training, are based on holding the criminal utterly accountable for his thinking and actions, and teaching him to change irresponsible mental and behavioral habits. It's a long process, requiring the criminal's sincere desire to change and willingness to work hard. Because of that, it's far from universally successful, though those who stick it out do improve.[50] But this approach couldn't be more different from the group therapies and psychological fads of the Excuse-Makers, whose premise is that the criminal is *not* responsible.

Reintegration

Excuse-Makers argue that prisons should be saved only for the hard-core offender. That, in fact, is exactly who the typical prisoner is. Releasing him back into society is a dereliction of responsibility that is itself almost criminal.

Community-based corrections is just rehabilitation on the streets—the same failed approaches, but with the added opportunity of countless innocent victims. Furloughs, work release, education release, halfway houses, prerelease centers—all should be ended on grounds of simple justice and public safety. If the primary purpose of prison is to incapacitate offenders, there's no reason for "community reintegration" programs.

Crime and Consequences

The United States was founded on the premise that each individual is an end in himself, and that he is morally and legally self-responsible. Self-responsibility means being accountable for the full consequences of one's actions, for good or ill. Thus the rewards and profits of life, in justice, should go to those responsible for making the world better; the penalties and losses should accrue to those who make it worse. Perhaps the best model of this idea is the free market economic system itself, where rewards and penalties are distributed with impartial fairness, based on one standard: the individual's capacity to generate valuable goods and services.

Under the symbol of Justitia, our criminal justice system began with the purpose of impartially meting out justice. Each person was held morally self-responsible, hence accountable for the consequences of his actions. But determinism and the Excuse-Making Industry have undermined all that.

Today, the Excuse-Makers look at the crime

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wave they have created, and simply shrug. The American Bar Association recently spoke for them all, saying, " . . . the public mistakenly looks to the criminal justice system to eliminate the crime problem . . . . The public's expectation that the system should control crime cannot be reconciled with the sense of criminal justice professionals . . . that the system itself has a limited role in crime control and crime prevention."[51]

That's simply more excuse-making. Citizens have a right to expect that the system is more than a procedural game, to provide employment and high incomes for legal professionals. They have a right to expect not "due process" as an end in itself—which actually becomes *undue process*. They have a right to expect *substantive justice.*

Crime can never be eliminated, not if we have the power to choose evil. But it *can* be controlled, if criminals are regarded as volitional entities, fully responsible for the consequences of their actions. The answer is to reform the entire criminal justice system, from its basic premises to its routine procedures, with a single goal in mind: to reassert the responsibility of the individual. □

1. For good discussions of these purposes see: Robert D. Pursley, *Introduction to Criminal Justice*, second edition (New York: MacMillan, 1980), pp. 352-356; James Q. Wilson and Richard J. Herrnstein, *Crime and Human Nature* (New York: Simon & Schuster, 1985), chapter 19; and "What are Prisons For?" *Time*, Sept. 13, 1982, pp. 38-41.

2. Wilson and Herrnstein. See chapter 7 for results of numerous studies.

3. Stanton E. Samenow, *Inside the Criminal Mind* (New York: Times Books, 1984), generally, and on pp. 20, 181.

4. Wilson and Herrnstein, p. 198; David Kelley, "Stalking the Criminal Mind," *Harper's*, August 1985, pp. 57-59.

5. Wilson and Herrnstein, p. 196.

6. Robert R. Hazelwood and John E. Douglas, "The Lust Murderer," *FBI Law Enforcement Bulletin*, April 1980.

7. Elliott Leyton, *Hunting Humans* (New York: Pocket Book edition, 1988), pp. 311-13.

8. Ramsey Clark, *Crime in America* (New York: Simon & Schuster, 1970), chapter 13.

9. Massachusetts Parole Board, *A Guide to Parole in Massachusetts*, May 1987, pp. 13-16.

10. Representative Denny Smith, address before the West Salem, Oregon, Rotary, Jan. 18, 1988.

11. "Can This Be Life?", *Corrections Compendium*, Feb. 1987, p. 8. All data in this paragraph were current as of 1987-88.

12. Unpublished survey of states by author, summer 1988.

13. Data supplied by Contact Center, Inc., Lincoln, Nebraska; current as of 1987.

14. The failure of psychological rehabilitation was detailed in Part I of this series. On general rehabilitation failures, see also: Wilson and Herrnstein, pp. 377-78, 382-84; Samenow, chapter 12, esp. p. 193 on a 1974 National Academy of Sciences study; *Time*, Sept. 13, 1982, pp. 38-41, and Feb. 2, 1987, p. 61; and *Insight*, Feb. 13, 1989, pp. 8-19.

15. Massachusetts Dept. of Correction, *Community Reintegration Program*, March 1988, pp. 1-2.

16. *Ibid.*

17. Samenow, pp. 21, 203-4.

18. See Samenow generally. Also see Samenow, *Before It's Too Late* (New York: Times Books, 1989); and Samenow's profile-interview in *People*, May 14, 1984, pp. 79-81.

19. Quoted in Norval Morris and Gordon Hawkins, *The Honest Politician's Guide to Crime Control* (Chicago: University of Chicago Press, 1970), p. 115.

20. Vernon B. Fox, *Community-Based Corrections* (Englewood Cliffs, NJ, 1977), pp. 2, 270.

21. Morris and Hawkins, pp. 123, 141-42.

22. Fox, p. 272.

23. *Ibid.*, pp. xiii-xiv.

24. 1988 survey conducted by Contact Center, Inc.; released Sept. 30, 1988.

25. Lester Velie, "The State That Freed Its Young from Jail," *Reader's Digest*, May 1984, p. 215.

26. *Community Reintegration Program*, p. 11.

27. Massachusetts Dept. of Correction, *Fact Sheet on Furloughs*, 1988.

28. For examples see Robert James Bidinotto, "Getting Away With Murder," *Reader's Digest*, July 1988; *Boston Herald*, Dec. 20, 1987; and Lawrence, MA, *Eagle-Tribune*, Dec. 24, 1987 and Jan. 10, 1988. For examples from other states, see Ann Rule, "A Rapist's Revenge," *Redbook*, April 1988; and Ralph Adam Fine, *Escape of the Guilty* (New York: Dodd, Mead & Co., 1986), p. 189.

29. Hearings, "Massachusetts Furlough System," Massachusetts House Post-Audit Committee, Oct. 21, 1987; uncorrected transcripts, pp. 78-9.

30. Lawrence *Eagle-Tribune*, June 11, 1988.

31. *Fact Sheet on Furloughs.*

32. *Boston Herald*, Aug. 29 and Dec. 27, 1987; Warren Brookes column, *Washington Times*, Mar. 2, 1988; Limone's recorded commutation hearing before the Massachusetts Parole Board.

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34. Massachusetts Dept. of Correction, Apprehension and Operations Research Unit, 1985 report on DOC escapes.

35. "Punishment Outside Prisons," *Newsweek*, June 9, 1986, p. 83.

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37. Samenow, *Inside the Criminal Mind*, chapter 6.

38. Massachusetts Dept. of Correction 1985 report on escapes, pp. 4, 6.

39. Hearings, "Massachusetts Furlough Program," Massachusetts House Post-Audit Committee, October 15, 1987, pp. 101-2, 263; Oct. 21, 1987, pp. 95, 206-9.

40. Wilson and Herrnstein, pp. 390-91, 394-95.

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42. Letter to *The Wall Street Journal*, May 25, 1988, by John Larivee, executive director, Crime and Justice Foundation, Boston.

43. Hearings, "Massachusetts Furlough Program," Massachusetts House Post-Audit Committee, October 14, 1987; uncorrected transcript, p. 25.

44. "Killers At Large," *Maclean's*, July 18, 1988, p. 44.

45. *Ibid.*

46. Hearings, "Massachusetts Furlough Program," Nov. 5, 1987, uncorrected transcript, pp. 43-44.

47. William Tucker, "Crime Victims Strike Back," *Reader's Digest*, June 1985, p. 52.

48. Estimate provided to author by Edwin Zedlewski of the National Institute of Justice.

49. See Robert James Bidinotto, "Morality Laws = Majority License," *The Freeman*, April 1987.

50. Samenow, esp. chapters 13 and 14.

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Social Consciousness and Individual Freedom

by David Beers

One way to look at the progress of a society or even of civilization itself is to see that progress in terms of the development of moral values. Alexis de Tocqueville, the great French social philosopher and observer of American society in the 1830s, noted that the power behind America's great progress as a society and the wellspring of its creative energy was the body of values to which Americans held. To Tocqueville, the individualistic, self-reliant character of the Americans and their passion for individual freedom had more to do with the success of the fledgling nation than even its vast natural resources. Holding to the same values which had inspired its Declaration of Independence from the British Crown, American society had quickly grown to equal, and in many ways surpass, its European forebears.

The moral underpinnings of our society have undergone gradual change over its history, but never so great as in the last three decades. The 1960s brought new values to the fore in the minds of many Americans. There were growing perceptions of the inequalities that exist among Americans—particularly inequalities of income—and a greater awareness of the welfare of the disadvantaged. From this new "social consciousness" sprang a desire that new rights be recognized in addition to the fundamental rights to life, liberty, and property. People had a right to a certain minimum standard of living, it was argued, and more was done to try to guarantee this right through government action than had ever been done before. In the face of the wide disparities in income among Americans, the government, in the words of Lyndon Johnson, was to guarantee "not just equality as a right and theory but equality as a fact and equality as a result" (Howard University commencement address, 1965).

Behind the great changes in public attitude and public policy during this time was a rising tide of anti-capitalism, the currents of which are still with us today. Implicit (and often explicit) in the demands that social inequalities be addressed by government welfare programs is the argument that the capitalist system is "socially unjust." It is a system in which factors such as luck, birth, inheritance, physical or mental impairment, or impersonal economic factors may determine an individual's welfare. It allows one man to bask in luxury and comfort while another strives in vain just to find food and shelter. In this way, it is alleged, the capitalist society, while successful in producing prosperity for many, fails in its moral duty to many others.

Here is a different sense of the word "moral" from what Tocqueville had in mind. What Tocqueville referred to as the great strength of American society was the common commitment of individuals to the value of freedom. What is meant in the phrase "society's moral duty," on the other hand, is something altogether different, for "moral" in this case is a collective imperative. The "moral failure" of our society does not consist primarily in the failings of its individual members; rather, "the system is to blame." Consequently, the moral responsibility to the

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disadvantaged belongs to society as a whole, or more accurately to the recognized agent for carrying out social purposes: the government.

Although the heady days of the Great Society are past and the utopian visions of the 1960s have cooled to something that one would like to think is sober realism, the idea that the United States as a society owes a moral debt to the victims of a system based on "profits rather than people" is still almost universally held. Discussions about social programs such as Aid to Families of Dependent Children, Social Security, and unemployment benefits focus on "how much," never "whether or not." In fact, even under the Reagan Administration's budget "cuts," debates over these programs were not usually so much about "how much" as about "how much more."

Such unanimous acceptance of this ethic of social consciousness is surprising considering that a scant 40 years ago it would have been almost inconceivable to most Americans. Its acceptance is nothing short of shocking, given the performance of the burgeoning system of transfers to the poor, which by the most accepted standards of measurement has been dismal. Flying in the face of all expectations, the consistent reductions in poverty that had been occurring throughout the 1950s and early 1960s actually ground to a halt in 1968 as anti-poverty legislation came into effect. Moreover, as Charles Murray notes in *Losing Ground,* the proportion of people who depended on government transfers to keep themselves above the official poverty level began to grow steadily from that year on.

The Power to Persuade

All statistics aside, though, the most remarkable point about the great rise of social consciousness in American culture is its apparently overwhelming persuasiveness—despite the fact that such an ethic is logically and pragmatically antagonistic to some of the most basic values of our society. Granted that there are many people who by some misfortune are unable to support themselves or their families, the act of using the coercive machinery of the federal government to enforce public "giving" is a flagrantly immoral invasion of the individual's right to hold property. Very few Americans would consider themselves Marxists today, yet on this issue nearly all cling to the essential spirit of Marxism embodied in the motto "from each according to his ability, to each according to his need."

Capitalism is often depicted as a system which eats away at the moral fiber of a culture. It is a system allegedly driven by self-interested behavior and one that rewards selfishness at the expense of compassion. Blind to anything but the "bottom line," it supposedly encourages the notion that success is the accumulation of material wealth, rather than the nurturing of spiritual values. Such allegations of moral decay in the free society, even if they were true, would carry little weight in view of the moral bankruptcy of welfarism.

The tragedy of 20 years of the War on Poverty is not that its measures have been too small to reduce the poverty rate today to anything less than it was in 1968. The tragedy is the multitude of able people who became welfare recipients every year when they would have found their way out of the poverty trap in the absence of these programs. Social programs may supply some important benefits to the genuinely helpless. But the inevitable irony of government transfers to the poor is that they induce other people to qualify for them—people who could work for a decent living, but choose idleness and a welfare check instead. More tragic still are the children of welfare families whose role models are parents who can't or won't hold a job or who have given up trying. Not only do these children fail to learn the importance of work and self- reliance, but the value of education—already hard for a child to appreciate—becomes incomprehensible to them. Not surprisingly, this situation results in poorer attendance, more frequent classroom disruptions, higher dropout rates, lower literacy and overall competence levels, and higher juvenile crime rates. Many children of school age in our inner cities now are third-generation welfare recipients.

The prevalence of the confused notion of "society's moral duty" is revealing. It demonstrates the awareness of a grave social problem, but at the same time betrays an unwillingness to admit to the individual moral imperative presented by the problem. Invoking the moral obligations of society is a subtle way of getting others to make the sacrifices to help those in need. Taking a stand for social justice by advocating government transfers to the disadvantaged is less costly than

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"putting one's money where his mouth is" and donating time or money to a private charity, since the government makes sure that the burden of "contributing" to new social programs is shared by all tax-paying members of society.

This is not meant to imply that there are not sincere, committed advocates of the underprivileged who make genuine sacrifices for the cause of helping the poor, homeless, and disabled. Certainly there are. But as government plays an ever larger role as the official agent of charity, it is sure that such altruists will become fewer in number. In a way analogous to the erosion of the work ethic among welfare recipients, the values of compassion and concern for one's fellowmen are diminished among potential benefactors. Just as the availability of welfare benefits removes the burden of responsibility on the recipient for his own well-being, the provision of welfare benefits by the government relieves the would-be giver's sense of responsibility for helping his fellowmen. The idea that the relief of poverty is "society's responsibility" and is thus in the domain of government action rather than individual action, then, tends to stunt the development of individual altruism and compassion.

Opportunity and Incentive

The free society lays no claim to any particular distribution of income, nor does it rule out misfortune or failure. But it does allow every opportunity and incentive for recovering from misfortune and failure, and furthermore, it forces people to face up to their own moral commitments toward helping others, rather than abdicate responsibility behind a facade of ineffective government programs. It promotes healthy self-examination since the results of one's actions or lack of actions to help others are more readily seen in the free society than under the bureaucratic morass of the welfare state.

By relegating the act of giving to the category of paying one's income tax, the welfare state serves only to insulate individuals from the moral decisions of whether to give and how to give. One never knows what part of his taxes is going to social programs, much less how the money is spent, or on whom. Yet the taxpayer is given some satisfaction in knowing that, like everyone else, he has done his part—even if in reality "his part" went to a perfectly able recipient who couldn't resist the temptation to take a free ride at the expense of the system.

In the free society, an individual who gives to a private charitable organization is aware of both the amount of the sacrifice he is making and, to a large degree, the actual use to which his donation is put. Unlike tax-funded bureaucracies, it is in the interest of organizations which freely compete for donations to give as much information about the nature and results of their activities as possible. Since both the benefactor and the organization have an interest in the outcome of a donation, there is the greatest possible chance that funds will be creatively and properly directed to individuals with genuine need.

The strength of American society lies in the values upheld by its individual members—not just values embodied in its laws, or even in documents like the Bill of Rights and the Declaration of Independence. Many of the poorest and most oppressive societies of the world have constitutions which are nearly identical to ours. The difference is one of moral heritage. Contrary to the grim caricature of the capitalist society as ridden with selfishness, callousness, and graft, our moral heritage includes a common respect and concern for our fellowmen, and an unselfish consideration for the rights and welfare of others. These elements of the American character are not undermined by a principled adherence to the rights of property and voluntary exchange. On the contrary, the freedom guaranteed by adherence to these rights is a necessary condition for the growth of that character. Unselfishness and compassion entail a moral independence and an honest self-examination that can only exist in the context of individual freedom. □

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What Is a Doctor's Relative Worth?

by Jane M. Orient

Congress has decided that some doctors aren't worth nearly as much as they get paid. Their "inflated" fees are one of the primary targets of the Medicare budget-cutters. Prostate surgery, cataract surgery, coronary artery bypass, and total hip replacement are often given as examples of "overvalued" procedures.

On the other hand, some doctors think they don't get paid enough. Among these are internists, family practitioners, and pediatricians, who spend most of their time talking to patients and examining them. Insurance companies don't pay as much for an hour of conversation as for a few minutes of cutting or of manipulating a catheter or an endoscope. As a rule, patients are not willing to pay very much for a mere consultation either. Our society tends to place a higher value on technical skills than on "cognitive" ones. Patients seem to think that a new lens in their eye, an injection, or a sophisticated laboratory test is worth more than a clinical diagnosis or a piece of good advice (e.g., to stop smoking).

As an internist, I also think that I deserve to be paid more. And I suspect that some of those others deserve to be paid less. Unfortunately, none of the "proceduralists" have offered to share the wealth with me (and if they did, they might be accused of fee-splitting and sent off to jail). If I raise my fees too much, patients might decide to find another doctor. (In any event, physicians can't raise fees to Medicare patients above the government-imposed ceilings called MAACs or Maximum Allowable Actual Charges.)

A voluntary solution to this perceived maldistribution of income does not seem possible. So what is to be done? Enter the government and its helpers, who promise to devise a "fair," if coercive, solution.

How Many Blood Pressure Prescriptions Are There in One Hernia Operation?

For a mere two million dollars, the Health Care Financing Administration (HCFA) and several foundations have funded a study that could revolutionize the way that physicians are paid. Researchers have developed the resource-based relative value scale (RBRVS), which assigns a "value" to each medical service in terms of its cost in "resources," relative to other services. For example, an "office visit, limited service, established patient" to an allergist is worth 62 RBRV units, whereas a "repair of an inguinal hernia, age 5 years or over" is worth 476 and an "initial history and physical examination related to the healthy individual, including anticipatory guidance; adult," if done by an internist, is worth 114.[1]

Researchers at the Harvard School of Public Health, under the leadership of health economist William Hsiao, arrived at these figures by a complex process that started with calling a number of doctors on the telephone. The researchers wanted to determine the amount of time required to perform various services, and also the intensity of the effort required. How much skill was needed, and how much stress was involved? The doctors were

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asked to consider a "reference" procedure, such as a follow-up visit with a 55-year-old man on two types of blood pressure pills, and compare it with other services that they might provide. For example, the doctor might say that an intermediate telephone consultation with a patient who has a rash takes one-fifth as much physical effort but 10 times as much diagnostic acumen as seeing the man with high blood-pressure. Refining the information, researchers accounted for "intraservice," "preservice," and "postservice" work. Also entered into the final equations were overhead costs, including malpractice insurance and the cost of the required training.

Weighting the Scales

Some physicians (usually "proceduralists" by specialty) argue that the study was biased from the beginning. HCFA wanted the outcome to favor "cognitive" instead of "procedural" work, so they chose a study group that had previously reported the desired findings. Apparently, HCFA got what it was paying for.

The Harvard group also has been accused of violating one of the fundamental rules of scientific research. The researchers failed to specify in advance the method to be used for normalizing the rankings across various specialties ranging from allergy to psychiatry to plastic surgery. Ophthalmologist Robert Reinecke, MD, of Thomas Jefferson University Hospital, thought that Hsiao's group might have withheld the details in order to prevent some specialists from jury-rigging the rankings to beat the system. However, in response to queries at an informational meeting in Dallas, the project directory for the Hsiao study stated that the methodology had not been worked out, and that the researchers planned to try different formulae *until the data looked right.* In other words, the researchers could manipulate the methodology until the calculations supported their predetermined conclusions.[2] The results could then confirm the Statistician's Law: *"If you torture the data long enough, it will confess."*

Although the rankings passed statistical tests for reliability, many of them failed the test of common sense. For example, ear, nose, and throat specialists noted that the removal of one lobe of the parotid (salivary) gland, a fairly simple procedure, had the same relative value as an extensive and difficult cancer operation. Obstetricians noted that a simple diagnostic D&C was assigned a higher value of intensity per unit time than performing a hysterectomy or attending a patient during a difficult labor.[3]

Some specialists agree that certain procedures may be overvalued, but they argue that the resulting payments enable them to continue to perform services that are undervalued. For example, the fees for cataract surgery subsidize medical treatment of glaucoma, a time-consuming service. Lowering the fees for cataracts might make it impossible for individual practitioners to survive, while high-volume "mills" take over the field. Similarly, reducing fees for D&C's might drive physicians to drop their obstetrical practice, because fees for delivering babies are inadequate to cover the malpractice insurance premiums. Price ceilings would also destroy doctors' ability to adjust their fees according to patients' ability to pay. Furthermore, they may become less willing to accept difficult cases.

A "Bait and Switch"?

Two strong boosters of the RBRVS, the American Society of Internal Medicine (ASIM) and the American Academy of Family Practice (AAFP), believe that the government has finally recognized the value of the "cognitive" services provided by their members. They have joined forces with a powerful lobby, the American Association of Retired Persons (AARP), to push for its acceptance.

The agenda of the AARP is clear, except perhaps to ASIM and AAFP. AARP leaders want to force physicians to work for the government for a fixed fee ("take assignment"). A ban on "balance billing" is the next step after the RBRVS. One impediment to this agenda is the perception that there are inequities in the current system of paying physicians. Once physicians agree to accept a system that is "fair," their case against a fixed-fee schedule is greatly weakened.

The government also might look favorably on the RBRVS, but not out of sympathy for

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beleaguered internists and family doctors. HCFA needs a cost-containment tool. At first, it may appear to physicians that many will increase their incomes substantially, even if at the expense of their colleagues. However, this pay increase might be a temporary effect. The dollar value of the payment is determined by multiplying the RBRV units by a conversion factor. The conversion factor could be lowered at will. Alternately, new measures to "control the inappropriate volume of care" (i.e. rationing) could be introduced. Increases in fees could be offset by disallowing claims on the basis that the service was medically unnecessary. In fact, such denials already occur. (For example, HCFA denied payment for an "unnecessary" electrocardiogram on a patient who had a cardiac arrest in the intensive care unit.)

Descriptions of the RBRVS appear overwhelming in their erudition and their complex algebra. In one's struggle to understand what is included in the calculations, it is easy to overlook that which is left out: the value of a medical service to the patient.

Are all "office visits, limited service, established patient" of equal importance to the patient? The Harvard researchers never interviewed a single patient. If they had, a patient might have told them that some visits result in a lifesaving diagnosis or in relief of pain and anxiety. But some visits are for an expensive but purely optional diagnostic test, or for an opinion about a trivial problem. A hernia repair might allow a laborer to continue working. But the same hernia might not pose any inconvenience to a bedridden patient. A cataract operation might restore a patient's ability to live independently. But he might choose to have the second cataract removed only "because Medicare is paying for it," as one patient confided in me.

The Objective Versus the Subjective Theory of Value

The RBRVS considers only one side of the transaction. It equates the value of a service solely with the cost of its production. Thus, it is based on an old idea: the objective theory of value, one of the fundamental tenets of Marxist economics. (Of course, the objectivity of some of the costs—such as the estimate of "stress"—is purely a pretense.)

The objective theory of value is often taken as axiomatic. In fact, the critique of this theory in the 19th century by Austrian economists such as Eugen von Boehm-Bawerk represented a revolution in economic thinking—a revolution that has yet to affect the Harvard School of Public Health.

The subjective theory of economic value, proposed by the Austrian economists, recognizes that "the value of all goods is bound up with man and his purposes . . ." (i.e., not solely with the impersonal operation of market forces). "In its subjective sense, value denotes the significance which a good . . . possesses for the well-being of a certain subject."[4]

While goods do have an objective value, Boehm-Bawerk noted that this is not necessarily proportional to their subjective value:

> Two cords of beechwood, for instance, possess equal objective fuel value. And yet one of them may be the only fuel supply of a poor family in a hard winter and absolutely irreplaceable because of their lack of money. It will possess a far greater subjective value for the satisfaction of that family's wants than will the other cord which is owned by a millionaire. And again, where wood is to be had in such abundance that it constitutes a "free good," it may very well have no subjective value for anyone's well-being at all, despite the fact that its "objective fuel value" remains entirely unchanged.[5]

In the subjective theory of value, the individual actor, the purchaser of goods and services, is the unit with which economics is concerned. In private medicine, *the individual patient with his own needs and values is the unit of practice.* The ranking of values varies with each individual, depending on personal circumstances and expectations. A person may be willing to make great sacrifices to obtain certain services, but will purchase others only if they are very cheap. For example, to one person cancer chemotherapy or surgery may seem a burden so great that the expectation of benefit may not be worth the price (either in money or suffering). To another, a small chance of cure may be worth any amount of pain and all of his

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worldly possessions. No third person can make a determination of the value of the service, even though its cost to the persons providing it may be exactly the same in the two instances.

According to the subjective theory of value, costs are basically *opportunity costs* incurred by a decision-maker, i.e., the value of the other goods or services he is willing to forgo in order to obtain the goods or services under consideration. Such costs must be borne exclusively by the person making the decision; they cannot be shifted to others. Nor can they be measured by others, since subjective mental experience cannot be directly observed. (However, the subjective value is reflected in the price that an individual is willing to pay.) Furthermore, costs are dated at the moment of final decision or choice.[6] Recalibration of a relative value scale, say every year, is far too slow to account for changes in the personal circumstances of the actors in any economic transaction.

The objective theory of value reduces both producer and consumer to interchangeable units in a collective. It is the stock in trade of the would-be central planners, who wish to control the practice of medicine, to standardize and depersonalize both medical services and patients. Hsiao sees the RBRVS as a mechanism by which (presumably omniscient) planners can redistribute physicians to areas of need and encourage or discourage certain types of practice or behavior.[7]

Some persons who support the RBRVS do so because they think the alternative proposals for paying physicians would be worse. The method favored by HCFA administrator William Roper is capitation: fixed payment by the head regardless of the number of services that a patient requires or demands. (This method—the *Kopfausschale*—was introduced in Germany about 1931).[8] Others propose to pay physicians a fixed amount according to the diagnosis, as hospitals are now paid, regardless of what treatment is provided.

Forgotten in the debates in the corridors of power are two individuals who might be able to arrive at a price for services without the need for a $2 million study: one doctor and one patient, making a voluntary agreement. The doctor knows what it costs to keep his office open and the opportunity costs of providing certain services. The patient knows the value of a service in his individual circumstances and how much he is willing and able to pay. But the ability of individuals to make voluntary agreements is becoming ever more circumscribed in our welfare state, as the planners gain control of the resources.

Like the leaders of the AARP and other lobbying groups, many persons today believe that the relative worth of an individual doctor is not one cent more than Harvard researchers calculate and the government pays.

In the past, similar methods of central planning and wage and price controls inevitably have led to distortions in the market, especially shortages.[9] After Hsiao and his colleagues figure out how many blood pressure prescriptions there are in a hernia operation, American health planners, like their Canadian counterparts, may be learning the calculus of rationing. The next questions will be like those featured in recent Canadian television specials: How many deaths on the waiting list for heart surgery equal a year of hemodialysis? How many clinic visits for preventive medicine equal a cataract operation? And at what age does the cost-benefit ratio for a pacemaker exceed what "society" is willing to pay? □

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Privatization in Northern Ireland—Making Politics Normal

by Nick Elliott

For most of us, party politics may be a dubious blessing, but for Northern Ireland it seems to be just what is needed. While in mainland Britain, strenuous debates have been fought about government intervention in the economy, Northern Ireland has been excluded. Not only would market reforms boost the Northern Ireland economy; they also would improve its politics.

Ever since the partition of Northern Ireland, the political parties there have been sectarian. The largely Protestant Ulster Unionists and Democratic Unionists want to maintain the union with the mainland. The SDLP (Social Democratic and Liberal Party) and Sinn Fein are mainly Catholic and advocate amalgamation with the South. The two main parties in mainland Britain, the Conservatives and Labour, do not stand candidates in Northern Ireland.

There are, no doubt, conservative Catholics who would support the Conservative Party, given the chance. And there undoubtedly are socialists who support the Unionists, but who would prefer to have a Labour Party to support. The parties in Northern Ireland do not represent the diversity of opinion existing there. The great issues that have fueled debate in Britain over the last 10 years—essentially about government involvement in the economy—have yet to be introduced to Ulster.

Of all the provinces of Britain, Northern Ireland has been least touched by privatization and deregulation. The British government has done little to reduce the $5 billion annual subsidy that it sends from the mainland to Ulster. Northern Ireland has been excluded from much of the free market legislation affecting the rest of Britain.

Recently, however, the government has announced that Short Brothers, the aircraft manufacturer, and the Harland & Wolf shipyard are to be privatized. These plans have provoked controversy, and what is most interesting is that all of the sectarian parties have come out in opposition. The only indigenous group to support the plans is the recently formed North Down Conservative Association.

This is possibly an encouraging first step toward making Northern Ireland politics normal. If the people in Northern Ireland were allowed to argue about the same things that people do in the rest of Britain, then politics would lose much of its sectarian nature.

There are plenty of suitable targets for market reforms. Northern Ireland has an unusually large public sector, which provides 42 percent of all employment. One of the most encouraging trends in Britain over the past decade has been the growth in self-employment—many more people now own their own businesses. The trend has yet to spread to Northern Ireland. It has a comparatively low start-up rate for new businesses, and the mainstays of the Northern Ireland economy are still staple industries such as shipbuilding, textiles, and agriculture. Little attempt has been made to stimulate local enterprise.

Part of the problem has been a conditioned reliance of Northern Ireland business upon subsidies from the British government. Subsidies to the manufacturing sector for 1986-87 were equiv-

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alent to $64 per week per employee. (Average earnings in Northern Ireland are $300 per week.) Between 1976 and 1985, over half of the subsidized firms received two or more grants—which is a worrying sign of dependency.

Preserving the Past at the Expense of the Future

While employment in the rest of Britain has moved out of industry and manufacturing into services, and while the mainland economy has become far more dynamic, the past has been preserved in Northern Ireland. The Northern Ireland economy has failed to bring the same prosperity that has been enjoyed in the rest of Britain; unemployment has remained at 17 percent, while it has fallen in the rest of the country to 9 percent.

Subsidies have distorted the Northern Ireland economy, keeping jobs and capital in trades where there is no longer any comparative advantage, and keeping resources out of potential new enterprises. It is also likely that government funding has "crowded out" more efficient investment by the private sector. During 1984-87, government grants to industry amounted to 75 percent of all industrial investment.

Politically, it isn't good for Northern Ireland to be so dependent upon the British government as an outside benefactor. Rather than resulting from impartial economic decisions, jobs and investments take on political overtones. Even when civil servants try to be scrupulously impartial, their decisions appear to have political implications for those rewarded or disappointed. The government has laid itself open to charges of Protestant bias by heavily subsidizing the Protestant company Shorts. By contrast, profit-seeking decisions taken by firms in the market are not seen as a vote for one side or the other.

The politics of Northern Ireland would benefit from a climate of enterprise. In addition to reducing subsidies, the government might encourage employee share ownership in Northern Ireland companies. Workers would feel less reliant on the British government for livelihood, and these steps would help to develop an enterprise culture as an alternative to the political culture.

Market reforms would bring other political benefits. Northern Ireland has been excluded from the radical reforms of secondary education being implemented in the rest of Britain. These reforms put parents in charge of running schools, allow them to opt for financial independence from government, and fund schools according to the number of pupils they attract. In England, Wales, and Scotland these reforms will introduce competition and raise the standards of education, but in Northern Ireland the reforms could foster political improvement as well.

Many of the funded schools in Northern Ireland have a strong religious bias. Parents have no choice but to send their children to these schools, even if they would prefer a secular or non-denominational education. Greater choice in education, as engendered in the mainland reforms, would allow more parents to avoid sending their children to sectarian schools.

A freer economy also would reduce the importance of sectarian politics to consumers and workers. As is true the world over, when you pick a product off a shelf, there is usually no way of knowing if it was made by someone who is black, white, or yellow. Trade crosses many boundaries, including sectarian divisions. Northern Ireland would benefit if business became more important, because the dominance of politics would diminish.

British politicians often have maintained that their Keynesian policies are necessary to "keep Northern Ireland afloat." They never seem to consider that subsidies may just prolong inefficiency and dependency. They also have been unwilling to stir things up with radical policy changes, because they hold a cautious suspicion of Northern Ireland politics. British leaders could do nothing better than to upset the stale politics of Northern Ireland by shifting the focus of debate. □

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Israel: The Road from Socialism

by Macabee Dean

In the last decade, Israel has undergone a great change in its thinking about state-owned companies. Most Israelis, including a large percentage of the socialists who formerly backed state-owned companies, now regard these firms as a drain on the nation's resources.

What brought about this change? To find an answer, we need to understand why the Israelis established state-owned businesses in the first place. And to do this, we must review the factors that preceded the founding of the State of Israel in 1948.

Years before the 1917 Balfour Declaration granted the Jews a homeland, Jews had been settling in Israel, then called Palestine. Many of them belonged to one or another of the various workers' movements which were in vogue around the turn of the century. In that era, socialism was believed to herald not only better times, but some sort of economic millennium.

An integral part of socialist dogma was the belief that capital was ruthlessly exploiting labor. This, it was believed, could be eliminated only when the means of production were owned and controlled by the socialist state.

This philosophy was rejected by the forerunner of Likud, today Israel's largest political party by a tiny margin, which is considered to be moderately "right" in the political spectrum. But at that time—and to a smaller extent even today—these dissenters were castigated as "fascists" by the socialists. And the word "fascist," in the days of Hitler's Germany and Mussolini's Italy, was a snarl word of immense propaganda value. It could be used against anyone who wasn't a socialist of one type or another.

The leftist workers founded the Histadrut (the General Federation of Labour) early this century to unionize and thus protect the workers from "exploitation." The main problem, however, was not exploitation, but creating jobs, since the few Jewish capitalists, mainly landowners, preferred Arab labor to Jewish.

So the Histadrut went much further than merely unionizing the workers. It set out to gain control of existing means of production, to create new places of work for immigrants (a forerunner of the state-owned companies), and to situate these work places, if possible, in areas that would be critical in the event of war. (Today's settlements in the West Bank and Gaza Strip follow the same pattern as outposts which constitute a line of defense.)

In all fairness to the Histadrut, then, and to the State of Israel today, no profit-seeking businessman would have established enterprises in these militarily vulnerable areas. After years of subsidies, some still face difficult struggles for survival. Others barely make ends meet.

Thus, the Histadrut developed a dual personality: it was, and is, both a labor union and an employer. This conflict of interests has caused many of the problems that have beset Histadrut enterprises for decades.

The problems came to a head more than a year ago when the Histadrut's huge industrial sector, Koor, ran into grave financial difficul-

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ties. Typical is what happened to Alliance, its tire plant. Alliance was facing bankruptcy. The Histadrut knew this, yet it approved wage hikes—not wage cuts. The outcome: the plant was closed down, and the workers were thrown out of work. What is interesting here is that the government itself followed the same policy: giving wage hikes to faltering enterprises such as El Al, the national airline.

The long-range significance of the Histadrut, which considered itself (and was) an integral part of a state in the making, is that it embarked on building its own economic empire—in a way quasi-state-owned companies—before the State of Israel was founded.

The Histadrut gradually became involved in nearly every field of endeavor—agricultural settlements, agricultural marketing, housing, construction, quarrying, cooperative groceries, industry, transportation, insurance, banking, exports and imports, social welfare, health services (still the largest system in the country, encompassing two-thirds of all Israelis), and even education—although this once large network has shrunk over the years. Today, the Histadrut directly controls about 25 percent of the Israeli economy (according to its own claim) and has a huge influence on another considerable percentage.

This background is very important, for when the State of Israel was founded in 1948, the leaders of these socialist organizations (most of which today are banded together in a political body called the Alignment) became the major policy makers in the various socialist-dominated coalitions from 1948 until 1977. Thus we see that the setting up of state-owned companies was a continuation of a policy started decades earlier by the Histadrut.

A Mixed Economy

But, if socialistic thinking prevailed in Israel in 1948, why did Israel's leaders adopt a mixed economy—one featuring cooperatives, kibbutzes, government companies, and private firms? Why didn't they try to establish pure socialism? The answer is simple: Israel at that time (as today) depended heavily on financial help from abroad, mainly from the U.S. government and American Jews. The U.S. government favored a free economy; and although many American Jews leaned toward socialism, they generally contributed only small amounts; the really big contributions came from the capitalistic sector.

Two of today's largest state-owned companies—Israel Chemicals (formerly the Dead Sea Works) and the Electric Corporation—were founded by private investors. The government took them over when both ran into financial hardships and faced dissolution. The Dead Sea Works' original installations were destroyed by the Jordanians in the 1948 war. Because investors were hesitant to put their money into the strife-torn Middle East, the company couldn't raise the immense sums needed to rebuild in a different location. Similarly, as Israel's population soared after 1948, the founders of the Electric Corporation couldn't raise enough capital to meet the Israelis' burgeoning demand for electric power.

Today, Israel has 159 state-owned companies. The total revenues of these firms in 1987 stood at 12.1 billion New Israeli Shekels (NIS) (At that time the exchange rate was NIS 1.60 to $1; since then the shekel has been devalued to NIS 2.00.) These companies employ 65,000 persons, about five percent of the labor force. If we add the employees of the state-owned firms to those employed in the various civil services (state, local, and public institutions, and so on), we find that one-third of all gainfully employed Israelis work directly for various branches of government. And this does not include the armed forces.

The state-owned companies include some of the largest firms in Israel. In addition to the two already mentioned, Israel Chemicals and the Electric Corporation, they are: Bezek (communications), Israel Refineries (petroleum), El Al, Israel Shipyards, Israel Aircraft Industries, and Mekorot (which controls the nation's water supply).

Some of these companies made money in 1987, some lost. The money-makers included the Electric Corporation, NIS 73.2 million; Bezek, NIS 36 million; El Al, NIS 37.3 million; Israel Chemicals, NIS 36.7 million; Israel Refineries, NIS 22 million. The big losers were Israel Aircraft Industries, NIS 151 million; Beit Shemesh Motors, NIS 41 million; and Israel

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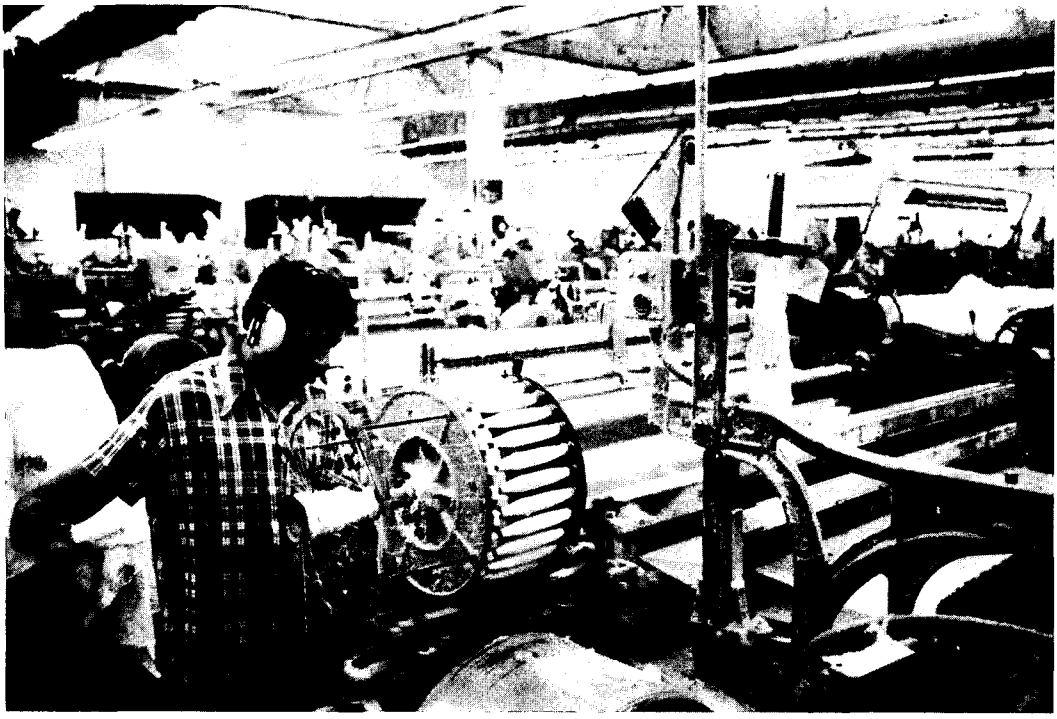

A worker in Israel's troubled textile industry. WIDE WORLD PHOTOS

Shipyards, NIS 21 million.

The purchase value of these companies is a matter for negotiations, but the government has quoted a figure of $1 billion for Israel Chemicals and the same amount for Bezek. This is a fairly large sum even in most Western countries.

To sell these firms, the Israeli government will have to overcome the difficulty faced by the Dead Sea Works and the Electric Corporation: most businessmen still have doubts about investing in the strife-torn Middle East.

True, Egypt has signed a peace treaty with Israel, but most major Arab nations maintain a state of suspended hostilities. The Iraq-Iran war has just indeed wound down, but the Iranians still preach a type of Moslem fundamentalism that could spread to other Moslem countries, and is already wreaking havoc in Lebanon. Moreover, for years Lebanon has been torn by an internal civil war, and it was further battered when Israel launched a campaign in 1982 to force out 20,000 soldiers of the Palestine Liberation Organization. In the meantime, Qaddafi of Libya continues to threaten Egypt, and there have been serious troubles in Yemen, the Sudan, and Ethiopia. The latest round of difficulties has been the Palestinian uprising in the West Bank and Gaza Strip territories occupied by Israel as a result of the 1967 Six-Day War. All in all, not a very promising region to set up a business.

Despite these difficulties, dozens of mainly American but not necessarily Jewish-run companies, some of them fairly large, have invested in Israel during the past few decades. They feel that Israel has advantages which overshadow the disadvantages: a strong and stable democracy, trained labor, plenty of highly skilled university graduates in the sciences, and easier access to the Common Market than they can gain from the United States.

Some of these companies have done quite well; others have not. Several have repatriated their investments, as they have from other countries, when they began to retrench their international activities. The picture which emerges is that these investors generally have done no better or worse than they would have in any other foreign country, despite the ongoing turbulence in the Middle East that shows no signs of subsiding.

What caused the great change in Israelis' thinking about state-owned companies? Sever-

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al things.

Perhaps the outstanding reason was economic: Israel gradually realized that to compete in international markets it had to produce quality goods at competitive prices. This change in thought became essential following its agreement with the Common Market (not as a full member but as one enjoying most of the rights) which forced it gradually to scale down its customs duties. More recently, Israel and the United States signed a Free Trade Area agreement which stipulated a gradual reduction of duties.

Improving Efficiency

Israel government officials, therefore, had to run the nation's factories at peak efficiency if they wanted the nation to export; they also had to insure that better-made and lower-priced foreign goods didn't replace Israeli products within Israel itself.

All this meant overhauling Israel's industry, and the state-owned companies were hit particularly hard because their management had rarely attracted top men. They preferred the private sector where the salaries were much higher, and were paid in accordance with performance. Moreover, many of the Israeli directors of state-owned companies were handpicked for their political views, not for their administrative ability and business acumen.

As Oudi Recanati, a leading Israeli banker, said in 1987 about the inability of state-owned companies to pay top managers competitive salaries:

> One of the biggest drawbacks in state-owned companies is that there rarely is a direct relationship between performance and compensation for this performance. The compensation structure in state-owned companies is rigid. Any attempt to try to compensate an outstanding manager for his performance creates a web of complication in a system where nearly all salaries and wages are linked.
>
> If the top man is given a pay hike—which he honestly deserves—it would start a chain reaction through the entire company. His deputies would also demand a hike, even if they did not deserve it, and so on throughout the entire managerial and manpower structure. Giving the top man a deserved pay raise leads to giving everybody a pay raise. And then other state-owned companies fight for the same benefits. In the end, everybody gets a pay raise, which in effect means that the man who "performs" is robbed of his salary differential.
>
> Privatization would allow establishing a system of compensation for performance whose effects would be enormously beneficial to the company. It would also lead to the complete separation of politics and management.

In a similar vein, consider the following 1986 statement by Natan Arad, spokesman for Moshe Shahal, Minister of Energy and Infrastructure. Shahal has been a life-long and dedicated member of the socialist Alignment:

> The Minister firmly believes that private initiative is superior—in efficiency, in lowering prices through competition, and so on—than government regulation. The Minister believes that no matter how dedicated, hardworking and intelligent government-employed or government-regulated management is—and many of our men certainly fit this category—private management will turn in better results. This philosophy has proved itself abroad in other countries which once believed in direct government intervention in every phase of business life.

It is interesting that Arad made this statement only after the 1977 national elections had brought the moderate rightist Likud to power for the first time since the State of Israel was founded in 1948.

Although the Likud has always favored selling state-owned companies, it sold only a few in the past decade. Why?

The answer is patronage. Government companies provide a valuable outlet for patronage, especially for placing party adherents, civil servants approaching retirement age, and so on.

Undoubtedly, one of the reasons that the socialist Alignment came out for the sale of state-owned companies in the past few years—and did nothing during the 29 years it was in power—is that the Likud is now ap-

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pointing its own men, ousting Alignment men if possible. The Alignment began yelling "politicalization," conveniently forgetting that it had initiated and for many years had benefited from the patronage provided by state-owned companies. All of these state-owned companies are connected in one way or another with a Ministry. The Minister appoints the Director-General and the Board of Directors, and fills lesser positions.

Since the state-owned company's Director-General wants to expand his power, he takes two major steps: he brings in the people he can best work with—not necessarily the best people available—and he sets up subsidiary firms that he can control from top to bottom. One government company, Paz, which owns 45 percent of the gasoline stations in Israel, was recently sold for $95 million to Australian businessman Jack Liberman. As a state-owned company, it had set up 28 subsidiaries that were sold with it.

Gradually the Alignment's demand for privatization gained the support of many members of the Likud (whose ideals about selling the state-owned companies never wavered). Pressure to sell the companies began to mount. Serious efforts were initiated.

Efforts to Privatize Move Slowly

During the past four years, the government has sold only three of its companies and has sold shares in another three, out of 30 companies marked for sale. This still leaves 129 state-owned companies that haven't been put up for sale. Some undoubtedly will be put up for sale, but some cannot be sold since they perform government services, and no one expects that they will ever make a profit; others are subsidiaries of major companies; and some will never be put up for sale for strategic reasons. It is hard to conceive, for example, that the government will sell any of its industries closely connected with the defense effort, such as Israel Aircraft Industries.

There are reasons why more of the 30 haven't been sold despite the government's serious intentions. One frequently mentioned is that the government doesn't know how to engage in a "hard sell." As the saying goes in Israel (and probably throughout the world): those who know how to make money go into private business; those who do not become civil servants regulating the country's economy.

To this must be added the resistance of members of the Knesset who ask: "Why sell a company making a nice profit? How can we know that the new owners will be able to maintain the same level of productivity and sales?" One always hopes that a better buyer will come along, outbidding an investor who makes a good offer, but who may lack the marketing outlets and promotional ability to foster the company's growth. Preferable is a businessman who will offer less, but who possesses the marketing facilities and the promotional ability to see that the company flourishes in the future.

The government must carefully check out each potential investor. What if one of them, through a front company, is run by an Arab citizen living in a country that is openly hostile to Israel? On a more practical scale, what if the potential buyer has a reputation of buying a company, then stripping it of its assets, leaving it an empty shell?

Other reasons fall into several categories.

Incumbent senior officials often fear they will be thrown out of their jobs, since new owners usually put their own people in key positions. Elderly people of top managerial status find it difficult to obtain work on the same level. And since they were put in their posts by political friends, they can often still mobilize these friends for help.

These senior officials will fight tooth and nail to delay the sale, and to muddy affairs, hoping that the interested buyer will back out. One method of delaying a sale is to play around with the books. The State Comptroller in 1986 accused Paz of indulging in "sophisticated" and "creative" bookkeeping soon after it was mentioned for sale. This change would certainly prevent any potential buyer from getting a clear picture of the company's worth.

Perhaps the following example will illustrate how difficult it is to figure out the worth of a state-owned company.

Early in the 1980s, El Al was plagued with a series of strikes; it was also flying deeper and

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deeper in the red. In 1982, after a four-month strike that culminated in a lock-out, El Al was placed in "temporary" receivership (which is still its status).

Although the staff was cut 40 percent, the national carrier managed to fly almost the identical amount of hours, and almost the same passenger load. The company moved from the red to the black.

Interestingly, in 1987 when there was considerable talk of selling El Al, the government suggested a figure of $800 million. The best offer received was for $300 million. This discrepancy shows the huge difference—much more than the usual "bargaining" gap—which exists in all negotiations between the government's idea of a company's worth and the potential buyers' assessments.

The problem of selling state-owned companies seems so formidable that an outside agency, First Boston, has been called in to work out a marketing strategy.

Buying shares in a state-owned company has its own pitfalls: both wages and the prices of the company's goods may be fixed by the government in an effort to keep the cost-of-living index down; most importantly, the Treasury sometimes has the power to overrule the board on dividend policy, and the government can decide that, for the sake of national interest, some state-owned companies will not be run according to accepted business practices. In this case the government, not the market, decides the size of the profits, if there will be any profits at all. Hence, an investor is buying a company over which he has no control.

No businessman in his right mind would invest in a state-owned company under these conditions. Indeed, when the government was interested in selling shares in Israel Chemical's Bromine group, it had to waive these provisions. Yet assuming that these provisions are abolished all together, can the government allow a monopolistic company—such as electricity, or water—to set prices? Both could lead to demonstrations and near-riots by a wide swathe of citizens who felt they were being taken for a ride.

Another reason why it has been difficult to sell state-owned companies is that rank and file Israeli workers, at one time even supported by the Histadrut, had a policy of demanding something akin to a "transfer of ownership" payment. (This policy has largely disappeared in recent years.) Although they weren't losing their jobs, they demanded severance pay (often double and triple ordinary severance pay), since somehow they believed they were *technically* losing their jobs because of the transfer of ownership, although they continued to work, i.e., they were hired immediately and never missed a paycheck.

There are certain unusual "benefits" that workers in state-owned companies receive. For example, the 7,000 workers of the Electric Corporation receive free power. In itself, this is no big deal, although they do use about three times the national average; 30 use eight times and one person uses eleven times the national average.

This waste is irritating to the consumers, and is especially annoying to every Minister whose province includes the Electric Corporation. They have all solemnly promised to end this practice. No one has succeeded, for within a few days after the Minister makes his public announcement, stories begin to appear in the press that the workers are considering "turning off the country's lights." This expression does not mean throwing a switch to put the country into darkness, but rather that there will be a series of unexplainable breakdowns which will reduce power output.

What does the future hold? In all probability the government will continue to sell its companies, if possible to foreign investors for hard currency. At least it claims that it will abstain from setting up new state-owned companies except as a "last resort."

One such "last resort" occurred in 1983 when the four leading banking networks were tottering on the brink of collapse. The government moved to guarantee the price of the shares of these banks on the stock market, picking up several billion dollars of such shares in the process. So, today, although these four banks are not in the legal sense "state-owned" companies, they are close to it since the government holds about 70 percent of their shares, and can find few buyers.

Clearly, the road from socialism will offer many challenges in the coming years. □

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Sports in America

by Tibor R. Machan

When I arrived in America from Hungary in 1956, one of my laments was that Americans didn't do as well as they could in the Olympic Games. The Soviet Union and other Soviet bloc countries did comparatively better, as anyone who was familiar with the record could tell.

Everyone in my family had been involved in sports. My father rowed and later became one of Europe's better rowing coaches. He even coached in the U.S. for a while, at Philadelphia's renowned Vesper Boat Club. My mother was 1942 foils champion in Hungary and is still a coach in Salzburg, Austria. My stepfather was a saber fencer in Budapest and is today the U.S. Olympic fencing coach. My sisters were top swimmers in Budapest. I myself did a little of everything until I decided that I had other priorities and confined myself to mere exercise, not serious athletics.

One advantage of being an athlete in Communist Hungary had been that if one showed talent and perseverance, one's life was made much better by the state. Under most statist political systems—ones that hold the state as a higher being than the individuals who comprise it—sports become a kind of public exhibition of collective excellence. That was especially true in Hungary and is still true in most of the Soviet bloc countries, as well as in China and in some of the rightist states such as South Korea. If one demonstrates ability and willingness to become a world class athlete, one is freed from all normal responsibilities of life and is kept in considerable luxury and privilege. For this one sells one's soul and, especially, one's body to the state as long as it holds up.

In my ignorance of the American political tradition, I was appalled at how little investment the American government made in amateur athletics. I noted that, with all its fabulous talent, America could win at virtually any of the Olympic events, if only sufficient resources and discipline were invested in that goal.

But of course here is the rub. American society may include some of the greatest talent for practically any task, including any facet of athletics. But it is not primarily a statist system. Government in this society is—or at least is supposed to be—a servant of the people. Individuals and their own goals are of paramount importance, not showing off the system, proving to the world how fabulous the social organism happens to be.

Therefore, in America many of the Olympic events are truly amateur sports. Of course, there are exceptions and gray areas—tennis and basketball, for example. But in the main, the athletes compete because that is what they want to do. And these athletes tend to have a variety of goals in their lives, which shouldn't be surprising for relatively free men and women. Unlike, for example, the East German swimmers, many top American swimmers take time from their training to devote to studying, family, and fun. Why not? Life has much more to offer than being a single-minded athlete. Sport, after all, is supposed to be something of

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He *recently edited* Commerce and Morality *for Rowman and Littlefield.*

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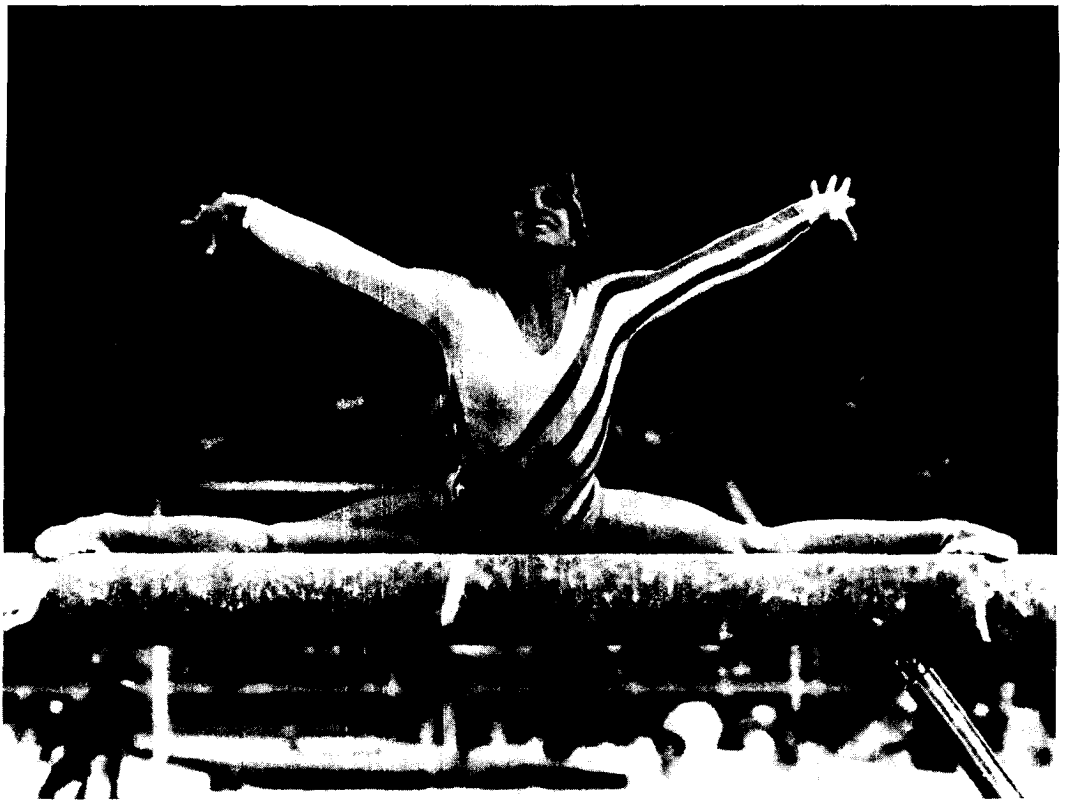

WIDE WORLD

an enjoyment in one's life, not a mission of slave labor.

But I didn't understand this when I first came to the United States. I was somewhat of a converted nationalist and didn't realize that what made this a nation worthy of respect had little to do with winning the most medals at the Olympics, having the most productive economic system, being first in space, or any other single purpose that some people might prefer to take as a sign of collective success. What was vital for this nation—and there are signs that this has not been entirely forgotten even now, except perhaps by most of our intellectuals and politicians—was that each individual had the liberty to strive for his own goals in life, provided he or she didn't trample on the similar efforts of others.

So now when I watch the Olympics my thinking and emotional reactions are very different from that first time I came to the United States. I scoff at all the nationalism injected into the commentary. I am usually bemused and even elated, in contrast to the network commentators, when it is noted that Americans are not doing as well as the Soviet bloc athletes—who usually appear glum even after delivering a 9.95 performance in gymnastics!

Free people do not put all their energy into a showy project such as the Olympics, except, now and then, spontaneously. Thus the 1984 Los Angeles Olympics disturbed me, although I realized that most people were celebrating the rejuvenation of the country, of which the American athletes' success in Los Angeles tended to be a symbol. But some of the nationalism began to grate on me.

I am a refugee to this country not because it manufactures Olympic winners, or the greatest technology in the world, or for any other single achievement found in it, but because it is the best environment for individuals to pursue their own happiness, according to their own individual talents, abilities, and choices. □

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Readers' Forum

To the Editors:

Thomas DiLorenzo's excellent article on "Monopoly Government" in the June 1989 issue of *The Freeman* has one important misstatement. The reason why government is in business does not have anything to do " . . . with the desire to supplement agency budgets with commercial profits" either on the Federal, and certainly not on the local level. It has to do with the prime motivating factor of virtually every politician: getting re-elected! The common name for this is patronage.

Here is how it works: The voter turn-out for the primary election, i.e., the one in which candidates get on the ballot, is always very small. However, those persons who are the beneficiaries of patronage can always be counted upon to vote. Their jobs depend on it. Thus, it is to every politician's benefit to dispense as much patronage as possible in order to assure himself a place on the ballot for the next election.

In addition, in many localities, such as New York, there are stringent "election laws" for getting on the ballot even for the primary. Among the requirements are a certain number of names on petitions. For a newcomer, getting the required number of names is an arduous task at best. For the incumbent, it's a lot easier, especially if he has dispensed a lot of patronage.

So there you have it. A great deal of government activity in the commercial sector has to do with the structure of the re-election process.

LAWRENCE M. PARKS
New York

Dr. DiLorenzo replies:

I agree completely with Dr. Parks' view that political patronage is a prime motivating force with any politician. I have coauthored two books (*Underground Government*, Cato Institute, 1983; and *Destroying Democracy: How Government Funds Partisan Politics*, Cato, 1985) that explore some of the more deceitful tricks that politicians play in their quest for re-election through the patronage system.

I disagree, however, that the importance of patronage conflicts with my contention that governments operate monopolistic, commercial enterprises in order to supplement agency budgets. After all, it takes money to finance patronage jobs. Driving private enterprises from the market is a way in which government enterprises at all levels—especially the local level—finance additional patronage opportunities. In addition to the patronage jobs provided by the monopolistic governmental enterprises themselves, "profits" can be used to create even more patronage jobs elsewhere in the bureaucracy. Thus, we are subjected to a vast system of what I call monopoly government. To add insult to injury, the people who benefit at the expense of the taxpayers call themselves "public servants."

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Intellectuals

by John Chamberlain

The title of Paul Johnson's new book, *Intellectuals* (New York: Harper and Row, 385 pp., $22.50), is a catch-all that promises a history of those who live by their brains. But what we get is highly selective. Though he ends his series of entertaining short biographies with a glance at Evelyn Waugh, George Orwell, Cyril Connolly, and others who don't fit his schematization, the book is about a specific breed of intellectuals who have taken Karl Marx's words about changing the world seriously.

What is the common denominator that unites Jean-Jacques Rousseau, Percy Shelley, Karl Marx, Henrik Ibsen, Leo Tolstoy, Ernest Hemingway, Bertolt Brecht, Bertrand Russell, Jean-Paul Sartre, Edmund Wilson, Victor Gollancz, and Lillian Hellman, each of whom gets a major chapter? The common factor is that they are all leftists. Johnson does not hold them to consistency. Bertrand Russell, for example, blew hot and cold on the Soviet Union — at one time, when the U.S. had a monopoly on the atom bomb, he advocated wiping Moscow off the map; world government would naturally follow. Hemingway, a genius at story telling, followed a fashion in leftism that put him at odds with John Dos Passos on the Spanish Civil War in a way that Katy Dos Passos, a fervent supporter of the anti-Stalin anarchists, quite rightly labeled as opportunistic. Edmund Wilson, F. Scott Fitzgerald's friend at Princeton, began as a man of letters, not a reformer. He shifted as a *New Republic* editor in the depression to do some first-rate reporting of the "American jitters" and going on from there to track Lenin's road to the Finland Station. But in late middle age he reverted to his origins as a man of letters.

Leo Tolstoy's world-saving was suspended in midstream to make way for the writing of *War and Peace*, possibly the world's greatest novel, and *Anna Karenina*. These were works of true genius. But Tolstoy thought less of them than of his efforts as a self-constituted messiah.

Marx "howled gigantic curses" against those who would interfere with the revolution he saw coming, but he brought up his daughters in a thoroughly conventional way. He didn't want them to have vocations. He talked about science, but he himself was incapable of good scientific research. Engels had to supply him both with cash and information about the working classes.

Shelley could be heartless in his thinking, but his poetry was certainly not heartless. Ibsen, no collectivist, wrote plays about individuals. Sartre wrote under the influence of both drink and drugs. He hoped that Europe could be created as an entity, but he groveled to the Soviets and admitted lying about the things he had seen in Russia. Camus's gibe was that Sartre, as an existentialist, tried to make history from his armchair.

Rousseau, among the leftist intellectuals, is the main malefactor. His theory that society should be governed by a "general will" led inexorably to Lenin's totalitarianism. The American Founding Fathers wanted nothing of any "general will" beyond a commitment to pluralism and the safeguarding of minority rights.

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One could wish that Senator Sam Nunn of Georgia, who has suggested that all adolescents should serve a compulsory term in doing good as defined by government, should read Paul Johnson on Rousseau. Nunn's own ideal "general will" would surely be humane, but no group of politicians can be trusted to formulate compulsory goals for a country. That should be left to individuals on a voluntary basis, subject to amendment as situations change.

The egotism of Johnson's leftist intellectuals is almost incalculable. Johnson quotes a contributor to a book on Rousseau's Social Contract as saying that Rousseau was a "masochist, exhibitionist, neurasthenic, hypochondriac, onanist, latent homosexual afflicted by the typical urge for repeated displacements, incapable of normal or parental affection, incipient paranoiac, narcissistic introvert rendered unsocial by his illness, filled with guilt feelings, pathologically timid, a kleptomaniac, infantilist, irritable and miserly." Johnson documents much, though not all, of this. Yet Tolstoy could say that "Rousseau and the Gospel" were "the two great and healthy influences of my life." Johnson professes himself to be baffled. He lets Sophie d'Houdetot, Rousseau's last lover, sum things up by saying "he was ugly enough to frighten me and love did not make him more attractive. But he was a pathetic figure and I treated him with gentleness and kindness. He was an interesting madman."

The madness of some of Johnson's intellectuals did not extend to Victor Gollancz, who packaged and sold Rousseauistic literature for his Left Book Club in London between the wars. Money-making is a rational objective. But the West, waiting for the evidence, might have been a little quicker than it was in noting that the Rousseauists were lovers of humanity who did not actually care for human beings. They treated their own wives, children, and friends and relatives abominably. Sartre boasted he could "run" four mistresses beside Simone de Beauvoir at a time. Paul Johnson supplies the evidence with detail that is most amusingly stated. But he really owes us more than that.

After all, we have had good conservative, classical liberal, and libertarian intellectuals, too. A counter book could be written around Mises and Hayek, Albert Jay Nock and William Graham Sumner, Bastiat and Adam Smith, Carl Menger, Eugen von Boehm-Bawerk, and Leonard Read. The book would not be as titillating as Johnson's current work: family life on the Right remains generally clear of the sort of scandal that Johnson gossips about so zestfully. But if it is ideas that we care for, the counter book should be forthcoming. □

UNFAIR COMPETITION: THE PROFITS OF NONPROFITS

by James T. Bennett and Thomas J. DiLorenzo

Hamilton Press, 4720 Boston Way, Lanham, MD 20706 • 1989 • 214 pages • $17.95 cloth

Reviewed by Peter Frumkin

At first blush, the operation of a museum gift shop seems harmless enough. Who could care if a worthy institution like the Richmond Museum makes a little cash on the side by selling postcards and other small items? Probably no one. But what about a nonprofit YMCA that serves young professionals at a lower cost than a local private health club, driving the club out of business? In this case, the issues become less clear and the questions more complex. Are some nonprofits using their nonprofit status to compete unfairly with their for-profit counterparts? Do nonprofit organizations enjoy subsidies that make true competition impossible? How can the need of nonprofits to raise funds be balanced with the concern of the business community that an unfair advantage exists which distorts the market? These are just some of the questions that James T. Bennett and Thomas J. DiLorenzo raise in their stimulating new study of the nonprofit economy, *Unfair Competition.*

Tax-exempt organizations are one of the fastest growing segments of the economy. In 1987, annual revenues exceeded $300 billion—or about 8 percent of the gross national product. They have, however, only begun to attract significant attention from researchers.

The very fact that many nonprofits are actively engaged in for-profit commercial activities may come as a surprise to some. After all, thoughts of the nonprofit community hardly conjure up im-

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ages of profitable operations generating significant revenues. In reality, however, many nonprofits are growing increasingly dependent on the funds which their various business ventures generate.

Is this a development that should be greeted with enthusiasm as a harbinger of lower costs to consumers? If the analysis contained in *Unfair Competition* is correct, there may well be hidden costs—and stiff ones at that—which need to be weighed before we accept the continued profiteering by the nonprofits. Bennett and DiLorenzo argue in fact that the phenomenal growth of the nonprofit sector has been achieved on the back of private business, with small for-profit firms suffering the most from the unfair competition of tax-exempt commercial organizations.

Nonprofits enjoy a whole host of advantages—chief among them being tax-free status and reduced postal rates—that give them an unfair advantage in the marketplace: "The effect of these special privileges is that governmental policy not only reduces the costs of nonprofit organizations, but it also raises the costs of doing business for their for-profit competitors. Profit-seeking firms must pay higher taxes and postal rates to offset the subsidies accorded nonprofits. Thus, because of this preferential treatment, competition between nonprofits and for-profits is inherently unfair."

Attempts by government to address the problem of unfair competition have been few and far between, and those few measures that have been taken have been largely ineffective. The Unrelated Business Income (UBI) Tax which was intended to level the playing field by taxing the revenues of nonprofits has, for example, proven difficult if not impossible to enforce. Bennett and DiLorenzo explain that the courts have not been able to give a rigorous and consistent definition of just what constitutes an "unrelated" business activity by a nonprofit. And because the UBI tax was to apply only to "commercial activity which is not significantly related to the purposes for which the nonprofit organization was established," enforcement and collection by the IRS has been less than successful. For their part, nonprofits have taken an extremely expansive view of what constitutes a related purpose, making the under-reporting or non-reporting of revenues commonplace.

Even if nonprofits enjoy an unfair advantage over private businesses due to tax breaks and postage subsidies, why should anyone worry? Bennett and DiLorenzo's answer is simple: unfair competition impedes the development of small business by making it hard for them to enter markets and compete. This is significant because two-thirds of all new jobs are created by businesses with fewer than 20 employees. The authors note that because commercial enterprises run by nonprofits are exempted from taxes and receive other subsidies, taxpaying businesses must bear an extra burden by paying higher taxes than they would otherwise to make up for exemptions enjoyed by their "nonprofit" competitors. Bennett and DiLorenzo conclude that unfair competition ends up crowding out of the market precisely those firms which are the principal source of new jobs—ultimately reducing the rate of economic growth.

The solution to unfair competition that Bennett and DiLorenzo offer is clear: "Nonprofits entering a commercial undertaking must form a for-profit subsidiary that must obey all the same laws and regulations that apply to for-profit enterprises." For according to the authors it is only when we move beyond hidden subsidies and the ineffectual regulations of UBI taxes that both consumers and producers will be able to enjoy the benefits of even-handed competition.

Unfair Competition makes a powerful case that the time to crack down on the profiteering of nonprofits is upon us and the future of free markets and fair competition rests in the balance. Some may differ with the recommendations of the book and favor less radical and sweeping reforms. One may hope a solution can be found which will both allow nonprofits to continue to operate on a fee for service basis and which will also ensure that the interests of private for-profit businesses are not damaged in the process. Any such compromise must, however, start from the premise that free enterprise and a level playing field are non-negotiable items. □

Peter Frumkin is a graduate student at Georgetown University where he is studying public policy.

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THE HIGH COST OF FARM WELFARE
by Clifton B. Luttrell

Cato Institute, 224 Second Street SE, Washington, DC 20003 • 1989
149 pages • $19.95 cloth, $9.95 paper

Reviewed by E. C. Pasour, Jr.

Government programs haven't solved the economic woes plaguing U.S. agriculture. Despite record expenditures on farm programs during the 1980s, financial stress in U.S. agriculture during the Reagan era was at its highest level since the Great Depression of the 1930s. Luttrell's short book describes government farm programs and demonstrates why they have been an expensive failure.

The book is divided into 11 chapters. Chapters 1 and 2 describe government intervention in agriculture following World War I that culminated in the Agricultural Adjustment Act of the Roosevelt New Deal. Chapters 3 through 6 analyze price support programs for crops from their beginning in the 1930s until the present time. Chapters 7 through 10 discuss other programs, including food stamps, subsidized credit, and price supports for milk and sugar. Chapter 11 describes the winners and losers, emphasizing that farm programs are a "high-cost way to aid low-income farmers."

Historical data are presented for a range of activities including production and exports of farm products, levels of price supports and market prices, sugar imports, government expenditures on food stamps, Farmers Home Administration loans, farm income by farm size, and expenditures by the U.S. Department of Agriculture (USDA).

Farm programs today are remarkably similar to those instituted during the 1930s. And government expenditures on farm programs, adjusted for inflation, have increased dramatically during the past 50 years, despite remarkable changes in the farm economy. Indeed, USDA outlays since 1980 have been higher each year than net farm income.

Luttrell pinpoints numerous inconsistencies and inefficiencies of price supports, subsidized credit, and other farm programs. For example, milk, sugar, and peanut programs raise food prices to consumers. At the same time, more than $10 billion is spent on food stamp programs to make food more available to lower-income consumers. Again, while espousing self-help and providing foreign aid to assist less developed sugar-producing nations, the United States has impeded economic development in these countries, notably in the Caribbean area, through sharp decreases in sugar quotas which limit their economic independence.

Of course, farm programs are inconsistent with competitive markets. Price supports that raise domestic prices above world price levels not only spawn protectionism to prevent the substitution of lower-priced imports by U.S. consumers, they also create the "need" for export subsidies to make U.S. products competitive in international trade. The massive export subsidies under Public Law 480 ("Food for Peace") and similar programs not only continue today but have been substantially increased in recent years.

Luttrell shows that most of the benefits of farm programs go to farmers whose incomes, on average, exceed those of the nonfarm population. For example, in 1985 the top 4 percent of farms (measured by value of products sold), with average net income of well over $100,000 per year, received about one- third of all government price support payments. In this reverse Robin Hood approach, the programs provide the lion's share of government payments to a relatively few higher-income farmers. Moreover, the benefits of higher product prices are quickly incorporated into higher prices and costs of land and other farm assets. Consequently, farm programs have little effect on the long-run profitability of U.S. agriculture.

What is the reason for this apparent anomaly in which the "government taxes so many for the benefit of so few"? Although Luttrell briefly addresses this topic, it would have been helpful to devote more space to the reasons why government tends to spend great sums on agricultural programs.

There are two explanations for the persistence of government farm programs — "market failure" and income redistribution. In the former view, government farm programs persist because the decentralized market process isn't capable of coordinating economic activity in agriculture. Luttrell demonstrates that the evidence doesn't support this conclusion and that government intervention in agriculture frequently destabilizes markets for farm products.

The income distribution explanation appears

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to be more consistent with the evidence. The political process is short-run oriented, and farmers (and other groups) often exert disproportionate amounts of influence in the political process because program benefits (as Luttrell stresses) are highly concentrated and the costs are widely diffused. For example, the sugar program that costs the average U.S. family no more than $50 per year benefits the 12,000 to 13,000 domestic producers of sugar and sugar substitutes, on average, by thousands of dollars per year. It isn't surprising that sugar producer interests exert more effort to influence the political process than do consumers!

How should the nation move to restore market forces in agriculture? Luttrell suggests a five-year adjustment period in returning to a competitive system. He also puts forth a controversial "decoupling" proposal in which farm programs would be dismantled, and current farmers would receive government payments unrelated to agricultural production until death or the age of 70. Luttrell recognizes that economic theory cannot be used to justify income redistribution to farmers. Moreover, he staunchly advocates the dismantling of farm programs, leaving no doubt about the inevitable result if agriculture isn't decontrolled: ". . . ever-increasing costs to taxpayers and consumers, resulting in further regulation and more highly inefficient, centralized decision making." □

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A THEORY OF SOCIALISM AND CAPITALISM: ECONOMICS, POLITICS, AND ETHICS
by Hans-Hermann Hoppe

Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, MA 02061 • 1989 • 275 pages • $40.00 cloth

Reviewed by Robert W. McGee

This book is an interesting blend of scholarship and polemic. The text is 210 pages, followed by 48 pages of notes, a 13-page bibliography, and a brief index, which makes it a good source document for anyone who wants to research any of the many interesting points that Hoppe raises. It is decidedly anti-statist and presents a strong case for capitalism on both a priori and empirical grounds.

When I read a book, I make marginal notations and underline the points that I think are worth reading a second time. With this book, I found that I had to restrain myself because I was making so many notations that it slowed my reading. Practically every paragraph has at least one point worth reflecting upon. Hoppe's writing style is entertaining in spots, and some of the examples he gives do a good job of pointing out the absurdity of commonly held collectivist viewpoints. The text is also heavy in spots, as is often the case with philosophy, but Hoppe partially overcomes this weightiness by summarizing what he has just said in the first few paragraphs of the next chapter. These short summaries provide a good overview of the previous chapter and give readers a second chance to digest what has just been read.

After a brief introduction, Hoppe explains the relationship of property, contract, and aggression to the two economic systems—capitalism and socialism. Capitalism is the institutionalized policy of nonaggression that recognizes and respects property and contract. Socialism is the system that aggresses against property and contract. One who aggresses increases his or her satisfaction at someone else's expense. Someone gains and someone loses. One who enters into a contract, on the other hand, is part of a win-win situation because both parties expect to benefit by the voluntary exchange. Socialism is an economically inferior system because, by relying on aggression, it causes less property to be created, and the property that is created is not put to optimal use. Politics and force, not economics and voluntary exchange, determine how property is allocated. Aggression is used to take from some people to give to others.

Hoppe spends the next four chapters explaining how different ways of deviating from a pure capitalist system lower investment, increase consumption, and cause a change in the composition of the population by favoring nonproductive over productive people. Under Soviet-style socialism, the style advocated by Marxian socialists, the means of production

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are nationalized. Investment must be made by caretakers of property rather than by owners, since there are no owners. Such an arrangement is inferior to capitalism for a number of reasons. For one, caretakers do not have the same incentive to care for "socialized" property as they would have to care for their own. Second, there is less incentive to maximize utility of the property since the caretakers do not get to keep what they produce. Also, the lack of a pricing system makes it impossible to plan rationally. Less urgent needs get satisfied at the expense of more urgent ones. Socializing the means of production causes relative impoverishment, a conclusion that can be drawn logically, since socially owned assets must necessarily be used less efficiently than privately owned ones. Where the incentive to produce is lessened, there will be less production.

Substantial empirical evidence also exists to verify this conclusion. East and West Germany are offered as examples. The populations are homogeneous, yet the West German economy thrives while the East German economy stagnates. The difference is caused by the economic systems used to allocate resources.

The second variety of socialism is the social-democratic model. Under this system, the idea of socialized production is exchanged for taxation and equalization. The means of production can be privately owned, with some exceptions, such as education, traffic, communications, central banking, the police, and the courts. Individuals have the right to own and produce, but not to keep all of the fruits of their labor. Some of these fruits belong to "society," which means the rights of the natural owner have been aggressively invaded. Thus, the difference between Soviet-style and social-democratic-style socialism is one of degree. In the first case, private ownership isn't permitted. In the second case, private ownership is permitted, but the state determines how much of the fruits can be kept by the rightful owner. Ownership rights are purely nominal. Social-democratic socialism settles for partial expropriation and the redistribution of producer incomes. The results, as with Soviet-style socialism, are reduced incentives to produce and relative impoverishment.

The third form of socialism is the socialism of conservatism, the ideological heir of feudalism. Like social-democratic socialism, conservative socialism allows private ownership, but not the right to keep all the fruits of private ownership. But whereas social-democratic socialism distributes from the producing haves to the nonproducing have-nots, conservative socialism distributes from the producing haves to the nonproducing haves; it aims at maintaining the status quo rather than increasing equality. The difference between the two kinds of socialism lies in the group of nonproducers who receive the fruits of other people's labor. Also, whereas the social-democratic form uses taxation to achieve its goals, conservative socialists favor the use of price controls, regulation, and behavioral controls. Again, the result is relative impoverishment, since use of any of these techniques causes productive resources to be misallocated from higher uses to lower uses.

The fourth form of socialism is that of social engineering. Whereas the Soviet, social-democratic, and conservative brands of socialism all fail on economic grounds, the fourth type of socialism doesn't claim to be economically superior to capitalism. It states, in effect, that even though socialism might be economically inferior to capitalism, it is morally superior. This empiricist-positivist Popperian style of socialism sees empirical proof of capitalism's superiority as ill-conceived. Socialism is made immune to criticism because any failures can be explained away as caused by some as yet uncontrolled intervening variable. We can never know in advance what the outcome of some policy will be. We must try it first. Then, if the policy fails, we can explain it away.

Hoppe then defends capitalism on ethical grounds and shows why socialism is indefensible. Under socialism, an individual's rights are determined by his class. Some individuals have an obligation to pay taxes, and others have a right to consume them. The computer industry, for example, must pay to subsidize farmers, the employed must subsidize the unemployed, individuals without children must subsidize those with children. The whole sys-

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tem is based on aggression.

The remainder of the book is devoted to the theory of the state, capitalist production, the problem of monopoly, and public goods theory. The state exists on the principle of divide and conquer, and the continuous threat of violence. It attempts to control basic services such as education, traffic and communications, the supply of money, and the production of security. Hoppe points out that monopoly cannot exist without government support, and that many of the services provided by the state can be provided more economically by the market. Public goods do not exist. Anything that is worth providing can be provided by the market. If the market does not provide a particular good or service, it is because consumers have determined that it isn't worth producing. Having the state step in to provide something that the market does not results in misallocating resources from higher to lower uses. □

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